

STOCKTON UNIFIED SCHOOL DISTRICT

COUNTY OF SAN JOAQUIN

STOCKTON, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2010

AND

INDEPENDENT AUDITOR'S REPORT

STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2010

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STOCKTON UNIFIED SCHOOL DISTRICT

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WITH SUPPLEMENTARY INFORMATION**

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STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Stockton Unified School District
Stockton, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Stockton Unified School District, as of and for the year ended June 30, 2010, which collectively comprise Stockton Unified School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Stockton Unified School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010 on our consideration of Stockton Unified School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Management's Discussion and Analysis and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule and the Schedule of Other Postemployment Benefits Funding Progress, are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposes of forming an opinion on the financial statements that collectively comprise Stockton Unified School District's basic financial statements. The accompanying financial and statistical information listed in the Table of Contents, including the Schedule of Expenditure of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Stockton Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
December 7, 2010





Management's Discussion and Analysis

An overview of Stockton Unified School District's financial activities for the fiscal year ended June 30, 2010, is presented in this discussion and analysis of the District's financial position and performance.

This Management's Discussion and Analysis should be read in conjunction with the District's financial statements, including notes and supplementary information, which immediately follow this section.

Financial Highlights

- Total government-wide revenue for the 2010 fiscal year was \$366.1 million. Expenditures totaled \$383 million. Net assets decreased by \$16.9 million. This represents a 6% decrease over the prior year.
- Capital assets, net of depreciation, increased by \$25.9 million. Projects completed during the fiscal year included the construction of Alex G. Spanos Elementary School, the modernization of Nolan D. Pulliam Elementary School, and District-wide networking and electrical upgrades.
- Construction and modernization work continued at a number of District school sites. Costs expended on projects in the construction phase totaled \$73.7 million at the end of the fiscal year.
- Long-term debt increased by \$17.1 million due, in part, to the issuance of \$16.0 million in General Obligation Bonds. The bonds issued were given a credit rating of "A" by Standards & Poor's Rating Services. The proceeds from the sale of the notes will be used for construction projects at Nightingale and Van Buren Elementary schools, and Edison High School.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- 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 statements.

The fund financial statements can be further broken down into three types:

- *Governmental funds statements*, which tell how basic services, such as regular and special education, were financed in the short-term, as well as what remains for future spending.
- *Proprietary funds statements*, offering short and long-term financial information about the activities the District operates like a business, such as the self-insurance and retiree benefit funds.
- *Fiduciary funds statements*, providing information about the financial relationships in which the District acts solely as trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the fiscal year

The chart below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Major Features of the Government-wide and Fund Financial Statements

| | Government-wide Statements | Fund Statements | | |
|--|--|--|--|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District, except fiduciary activities | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses: self-insurance and retiree benefits. | Instances in which the District administers resources on behalf of someone else, such as student activities monies. |
| Required financial statements | Statement of Net Assets Statement of Activities | Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balance | Statement of Net Assets Statement of Revenues, Expenses and Changes in Fund Net Assets Statement of Cash Flows | Statement of Fiduciary Net Assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities both short-term and long-term; Standard funds do not currently contain non-financial assets, though they can |
| Type of inflow/outflow information | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during the year, regardless of when cash is received or paid |

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net Assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating. To assess the overall health of the District, you need to consider additional non-financial factors including the condition of the District's school buildings and other facilities.

In the government-wide financial statements, the District's activities are reported as Governmental activities. Most of the District's services are included here, such as regular and special education, transportation, and administration. Funding received from the State of California through the revenue limit, along with categorical and special funding received from the federal and state governments, finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes or to show that certain revenues have been properly used.

There are three types of funds that the District utilizes:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in the determination of whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.
 - *Internal Service funds* are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has two internal service funds – the self-insurance fund and the retiree benefits fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance operations.

Financial Analysis of the District as a Whole

The computation of District net assets at June 30, 2010 and 2009 is presented by category in the table below:

| | Government-Wide Activities | | Year Over |
|--|----------------------------|-----------------------|-----------------------|
| | 2010 | 2009 | Year Change |
| Current and other assets: | | | |
| Cash and investments | \$ 195,597,061 | \$ 222,690,526 | \$(27,093,465) |
| Receivables | 61,616,293 | 48,871,284 | 12,745,009 |
| Inventories | 1,223,495 | 1,379,292 | (155,797) |
| Other current assets | 5,578,916 | 4,371,847 | 1,207,069 |
| Capital assets, net of depreciation | <u>434,346,148</u> | <u>408,411,372</u> | <u>25,934,776</u> |
| Total assets | <u>698,361,913</u> | <u>685,724,321</u> | <u>12,637,592</u> |
| | | | |
| Long-term debt outstanding | 368,026,022 | 350,967,088 | 17,058,934 |
| Other liabilities | <u>65,339,305</u> | <u>52,874,827</u> | <u>12,464,478</u> |
| Total liabilities | <u>433,365,327</u> | <u>403,841,915</u> | <u>29,523,412</u> |
| | | | |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 206,143,021 | 201,904,578 | 4,238,443 |
| Restricted | 60,047,456 | 68,107,489 | (8,060,033) |
| Unrestricted | <u>(1,193,891)</u> | <u>11,870,339</u> | <u>(13,064,230)</u> |
| Total Net Assets | <u>\$ 264,996,586</u> | <u>\$ 281,882,406</u> | <u>\$(16,885,820)</u> |

Total assets increased by \$12.6 million during the 2010 fiscal year. Of this total, cash accounts decreased by \$27.1 million and receivables increased by \$12.7 million. Capital assets, net of depreciation, increased by a total of \$25.9 million. Capital assets are discussed in more detail later in this Management Discussion and Analysis report.

Total liabilities increased by \$29.5 million. Long-term debt accounted for \$17.1 million of this increase, primarily due to the issuance of \$16.0 million in General Obligation Bonds. In addition, other liabilities increased by a total of \$12.5 million. Other liabilities include accounts payable and deferred revenue. A discussion of the District's long-term debt is included later in this report.

The difference between the \$12.6 million increase to Total Assets and the \$29.5 million increase to Total Liabilities results in a net \$16.9 million decrease to Total Net Assets, a 6% change from the balance at June 30, 2009.

Changes in Net Assets

A summary of total District revenues, expenses, and change in net assets is presented in the table below.

| | Government-Wide Activities | | Year Over |
|------------------------------------|----------------------------|-----------------------|------------------------|
| | 2010 | 2009 | Year Change |
| Revenues – Program: | | | |
| Charges for Services | \$ 2,973,214 | \$ 3,059,949 | \$ (86,735) |
| Operating Grants and Contributions | 121,255,503 | 133,827,522 | (12,572,019) |
| Capital Grants and Contributions | 6,903,894 | 21,395,442 | (14,491,548) |
| Revenues – General: | | | |
| Unrestricted Federal and State Aid | 179,598,851 | 184,653,764 | (5,054,913) |
| Taxes Levied for General Purposes | 34,758,099 | 37,306,413 | (2,548,314) |
| Taxes Levied for Debt Service | 15,515,064 | 19,161,752 | (3,646,688) |
| Taxes Levied for Other Purposes | 1,061,267 | 379,700 | 681,567 |
| Interest and Investment Earnings | 2,326,108 | 4,065,491 | (1,739,383) |
| Other General Revenues | <u>1,734,049</u> | <u>3,345,585</u> | <u>(1,611,536)</u> |
| Total Revenues | <u>366,126,049</u> | <u>407,195,618</u> | <u>(41,069,569)</u> |
| Expenses: | | | |
| Instruction | 236,224,455 | 236,078,494 | 145,961 |
| Pupil and Instructional Services | 82,169,452 | 92,632,545 | (10,463,093) |
| General Administration | 15,101,452 | 15,096,451 | 5,001 |
| Plant Services | 34,330,841 | 35,722,359 | (1,391,518) |
| Other Expenses | <u>15,185,669</u> | <u>16,166,800</u> | <u>(981,131)</u> |
| Total Expenses | <u>383,011,869</u> | <u>395,696,649</u> | <u>(12,684,780)</u> |
| Increase (Decrease) in Net Assets | (16,885,820) | 11,498,969 | (28,384,789) |
| Net Assets, Beginning of the Year | <u>281,882,406</u> | <u>270,383,437</u> | <u>11,498,969</u> |
| Net Assets, End of the Year | <u>\$ 264,996,586</u> | <u>\$ 281,882,406</u> | <u>\$ (16,885,820)</u> |

For the 2010 fiscal year, total District revenues were \$366.1 million. Total District expenses were \$383 million. The difference, \$16.9 million, is the decrease in District net assets, reducing the total net assets at June 30, 2010 to \$264.9 million.

A main source of revenue for the District is the State Aid portion of the Revenue Limit, included in the Unrestricted Federal and State Aid total. The Revenue Limit is based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days the student is enrolled.

Enrollment, including the District's dependent charter schools, was higher in 2010 when compared with the prior school year. Total second month enrollment in Grades K – 12 for the 2010 fiscal year was 37,310 students, an increase of 156 students from the 2009 year. When District charter schools are not included in the totals, enrollment continued in a declining pattern with a loss of 79 students from the prior year.

Average Daily Attendance for the Second Reporting Period (P-2) declined when compared with the prior year. For the 2010 fiscal year, the P-2 ADA totaled 34,206, a decrease of 262 ADA from the prior fiscal year.

Governmental Activities

Governmental Activities Expenditures

| | Total Cost of Services | | Net Cost of Services | |
|--|------------------------|-----------------------|-----------------------|-----------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Instruction, Instruction-related Services and Pupil Services | \$ 318,393,907 | \$ 328,711,039 | \$ 191,715,647 | \$ 191,255,958 |
| General Administrative and Plant Services | 49,432,293 | 50,818,810 | 45,683,482 | 30,585,883 |
| Ancillary Services | <u>917,888</u> | <u>912,652</u> | <u>829,140</u> | <u>820,751</u> |
| Totals | <u>\$ 368,744,088</u> | <u>\$ 380,442,501</u> | <u>\$ 238,228,269</u> | <u>\$ 222,662,592</u> |

This table displays by function the total and net cost of services provided for the 2010 and 2009 fiscal years. The net cost of services represents the total cost less operating and capital grants and contributions, and for revenue received where a charge is made for the service provided.

Financial Analysis of the District's Funds

At June 30, 2010, the District had fourteen governmental funds reporting a combined fund balance of \$197.7 million, a decrease of \$25.2 million over the prior year. Of these funds, six had revenues which exceeded expenditures, contributing to the combined fund balance. The following table details the fund balances of the individual governmental funds.

Governmental Funds – Fund Balance

| | Fund Balance – June 30, | | Year Over Year Change |
|--|-------------------------|-----------------------|--------------------------|
| | 2010 | 2009 | |
| General Fund | \$ 39,482,478 | \$ 49,347,662 | \$ (9,865,184) |
| Charter Schools Special Revenue Fund | 13,252 | -- | 13,252 |
| Adult Education Fund | 1,108,799 | 3,843,967 | (2,735,168) |
| Child Development Fund | 2,080,127 | (557,187) | 2,637,314 |
| Cafeteria Special Revenue Fund | 7,444,207 | 5,203,523 | 2,240,684 |
| Deferred Maintenance Fund | 786,570 | 1,257,435 | (470,865) |
| Building Fund | 25,573,491 | 30,992,744 | (5,419,253) |
| Capital Facilities Fund | 30,461,489 | 31,451,495 | (990,006) |
| County School Facilities Fund | 24,883 | 16,965 | 7,918 |
| Special Reserve for Capital Outlay Projects | 72,325,056 | 80,185,668 | (7,860,612) |
| Capital Proj. Fund for Blended Component Units | 1,510 | 2,154,414 | (2,152,904) |
| Bond Interest and Redemption Fund | 13,486,482 | 14,221,069 | (734,587) |
| Tax Override Fund | 13,058 | 12,975 | 83 |
| Debt Service Fund | <u>4,930,669</u> | <u>4,769,394</u> | <u>161,275</u> |
| Totals | <u>\$ 197,732,071</u> | <u>\$ 222,900,124</u> | <u>\$ (25,168,053)</u> |

General Fund Budgetary Highlights

The District's 2010 General Fund operating budget was adopted by the Governing Board in June of 2009. As adopted, budgeted expenditures of \$334.5 million were \$5.9 million more than the \$328.6 million budgeted for revenue.

There were several formal revisions made to the budget during the year. These revisions fell into three main categories:

- Increases to both estimated income and appropriations due to the receipt of new grant awards or donations.
- The budgeting of carryover balances from prior years. It is District policy to not budget expenditure totals carried over from a prior year until after the unaudited actual balances for that year have been calculated.
- Increases in appropriations to prevent budget overruns.

The tables following display General Fund revenue and expenditures by major object categories with a comparison to the revised budget totals.

| | General Fund | | Increase (Decrease) |
|----------------------------|-----------------------|-----------------------|------------------------|
| | Actual | Revised Budget | |
| Revenue: | | | |
| Revenue Limit Sources | \$ 173,514,502 | \$ 171,349,640 | \$ 2,164,862 |
| Federal Revenue | 43,191,530 | 63,517,886 | (20,326,356) |
| Other State Revenue | 89,646,091 | 82,017,689 | 7,628,402 |
| Other Local Revenue | 5,333,206 | 7,516,034 | (2,182,828) |
| Transfers In/Other Sources | <u>2,759,446</u> | <u>149,021</u> | <u>2,610,425</u> |
| Total Revenue | <u>\$ 309,664,775</u> | <u>\$ 324,550,270</u> | <u>\$ (14,885,495)</u> |

| | General Fund | | Increase (Decrease) |
|--|-----------------------|-----------------------|------------------------|
| | Actual | Revised Budget | |
| Expenditures: | | | |
| Certificated Salaries | \$ 150,697,880 | \$ 161,256,916 | \$ (10,559,036) |
| Classified Salaries | 46,632,063 | 47,483,320 | (851,257) |
| Employee Benefits | 73,230,204 | 78,592,954 | (5,362,750) |
| Books and Supplies | 16,812,374 | 38,612,790 | (21,800,416) |
| Services and Other Operating Expenses | 35,416,360 | 39,694,447 | (4,278,087) |
| Capital Outlay | 39,134 | 62,599 | (23,465) |
| Other Outgo/ Direct Support/Indirect Costs | 858,818 | 915,893 | (57,075) |
| Transfers Out/Other Uses | <u>623,126</u> | <u>380,510</u> | <u>242,616</u> |
| Total Expenditures | <u>\$ 324,309,959</u> | <u>\$ 366,999,429</u> | <u>\$ (42,689,470)</u> |

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2010, along with the increase or decrease to fiscal year 2009 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

| General Fund | | | | |
|---------------------|-----------------------|---------------------|--|--------------------------------------|
| | FY-2010 Actual | Percent Of Total | Increase (Decrease) from FY-2009 | Percent Increase or (Decrease) |
| Revenues: | | | | |
| Revenue Limit | \$ 173,514,502 | 55.67% | \$ (23,383,215) | (11.88)% |
| Federal Revenue | 43,191,530 | 13.86% | (7,746,280) | (15.21)% |
| Other State Revenue | 89,646,091 | 28.76% | 5,314,408 | 6.30% |
| Other Local Revenue | <u>5,333,206</u> | <u>1.71%</u> | <u>(1,835,493)</u> | <u>(25.60)%</u> |
| Total Revenues | <u>\$ 311,685,329</u> | <u>100.00%</u> | <u>\$ (27,650,580)</u> | <u>(8.15)%</u> |

Expenditures for the General Fund are reflected in the following table by major expenditure category. The table does not include Transfers Out and Other Financing Uses.

| General Fund | | | | |
|--|-----------------------|---------------------|--|--------------------------------------|
| | FY-2010 Actual | Percent Of Total | Increase (Decrease) from FY-2009 | Percent Increase or (Decrease) |
| Expenditures: | | | | |
| Certificated Salaries | \$ 150,697,880 | 46.56% | \$ (14,858,482) | (8.97)% |
| Classified Salaries | 46,632,063 | 14.41% | (3,552,783) | (7.08)% |
| Employee Benefits | 73,230,204 | 22.62% | 6,862,231 | 10.34% |
| Books and Supplies | 16,812,374 | 5.19% | (3,678,522) | (17.95)% |
| Services, Other Operating Expenses | 35,416,360 | 10.94% | 460,001 | 1.32% |
| Capital Outlay | 39,134 | 0.01% | 11,202 | 40.10% |
| Other Outgo/Dir. Supp./Indirect Costs | <u>858,818</u> | <u>0.27%</u> | <u>222,288</u> | <u>34.92%</u> |
| Total Expenditures | <u>\$ 323,686,833</u> | <u>100.00%</u> | <u>\$ (14,534,065)</u> | <u>(4.29)%</u> |

The District's financial condition was tested during the 2010 fiscal year because of declining average daily attendance and the uncertainty of the national and state economies. The District's plan for moving forward in these turbulent economic times is discussed more fully in the "Economic Factors and Next Year's Budgets and Rates" section found later in this document.

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

| | Government-Wide Activities | |
|--------------------------|----------------------------|-----------------------|
| | 2010 | 2009 |
| Land | \$ 25,735,353 | \$ 21,169,097 |
| Improvement of Sites | 3,238,781 | 2,077,980 |
| Buildings | 328,621,600 | 312,083,331 |
| Equipment | 3,026,495 | 3,945,053 |
| Construction in Progress | <u>73,723,919</u> | <u>69,135,911</u> |
| Totals | <u>\$ 434,346,148</u> | <u>\$ 408,411,372</u> |

Capital assets in the table above are reflected at June 30, 2010 and 2009, net of depreciation. The District uses a capitalization threshold of \$50,000. Depreciation on each capitalized asset has been calculated using the straight-line method over applicable useful lives. The amount shown for Construction in Progress represents expenditures for projects currently in the construction phase. Depreciation will not be taken on these assets until a project is completed.

Capital assets, net of depreciation, increased by \$25.9 million during the year. Major capital asset projects completed during the year include the following:

| | | |
|----------------------|------------------------------------|----------------|
| ✓ Land | Alex G. Spanos Elementary School | \$4.6 million |
| ✓ Land Improvements | Alex G. Spanos Elementary School | \$1.3 million |
| ✓ Construction | Alex G. Spanos Elementary School | \$19.8 million |
| ✓ Modernization | Nolan D. Pulliam Elementary School | \$4.8 million |
| ✓ Networking | District-wide Networking Project | \$0.7 million |
| ✓ Electrical Upgrade | Electrical Upgrading Project | \$0.3 million |

A total of \$73.7 million has been expended on projects still in the construction phase. This includes construction work on the Valentine Peyton Elementary School, construction on the A.A. Stagg High School athletic facilities project, and modernization projects at a number of school sites.

Outstanding Debt at Year-End

| | Government-Wide Activities | |
|---------------------------------------|----------------------------|-----------------------|
| | 2010 | 2009 |
| General Obligation Bonds | \$ 266,100,251 | \$ 255,397,855 |
| Certificates of Participation | 52,692,766 | 54,155,130 |
| Bond Anticipation Notes | 21,985,162 | 22,036,865 |
| Qualified Zone Academic Bonds Payable | 6,635,000 | 6,635,000 |
| Lighting Retrofit Payable | 177,755 | 600,565 |
| Compensated Absences | 4,232,263 | 3,517,336 |
| Other Postretirement Benefits | 8,109,646 | 7,475,837 |
| Capital Leases | 766,023 | 1,148,500 |
| PARS Liability | <u>7,327,156</u> | <u>--</u> |
| Totals | <u>\$ 368,026,022</u> | <u>\$ 350,967,088</u> |

Outstanding debt increased by a net amount of \$17.1 million during the fiscal year. This increase primarily results from the issuance of \$16.0 million in General Obligation Bonds. These bonds, representing Series B from the bonds approved by District voters in 2008, carry a Standard and Poor's credit rating of "A." The funds received from the sale of the bonds will be used for the construction of classrooms and other site improvements at Nightingale and Van Buren Elementary schools, and for the construction of a football/soccer stadium and related facilities at Edison High School.

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.

Economic Factors and Next Year's Budgets and Rates

The 2010-11 Stockton Unified School District budget has been developed with all components of the proposal presented by the Governor in January and any applicable May Revise adjustments.

This has been a difficult budget to prepare and monitoring it will be a challenge as the year continues. The national and state economic situation, while slowly improving, is far from stable. Concerns over being in a recession, the high unemployment rate, construction slowdowns and the depressed housing market continue to drag on a quick economic recovery. The adage "two steps forward, one step back" certainly applies to the situation currently faced by the District and State. The federal government provided stimulus funds to assist in helping governmental entities, including school Districts, deal with the current economic situation. While helpful, these funds were a one-time revenue source and cannot be relied on as a long-term solution. The state government has decided to deal with its own budget problems by deferring payments to state agencies. At the time this report was prepared, the state had deferred 33% of payments which should have been made to local agencies. Other measures, such as deficit factors, have also been imposed by the state to reduce funds that come to school Districts. This puts Stockton Unified in a precarious situation where cash management becomes critical. The District has dealt with the current cash flow situation by monitoring cash flow projections on a regular basis, closely tracking the payment of outstanding invoices, and by issuing Tax and Revenue Anticipation Notes (TRANs). These notes provide cash funds to "even out" the irregular funding stream coming from the state. In addition, the District is looking at cost cutting measures and soliciting ideas from staff, bargaining units, and the public to further reduce the budget. District employees and administration, the unions, and the community have a vested interest in finding ways to maintain the financial stability of Stockton Unified School District. By working together, the District "family" will weather this economic storm while continuing to provide a quality educational program for our students.

Critical assumptions used to prepare the 2010-11 budget are discussed below.

Student Enrollment and Enrollment Projections

One of the economic factors affecting the school District's future outlook and growth potential is enrollment. Enrollment represents the number of students attending school within the District's boundaries. Additional revenues are generated from average daily attendance (ADA) when a greater number of students attend District schools. When enrollment is lower, the District receives less of this general purpose funding. As the 2010-11 school year began, the District's enrollment continued to reflect a pattern of declining enrollment.

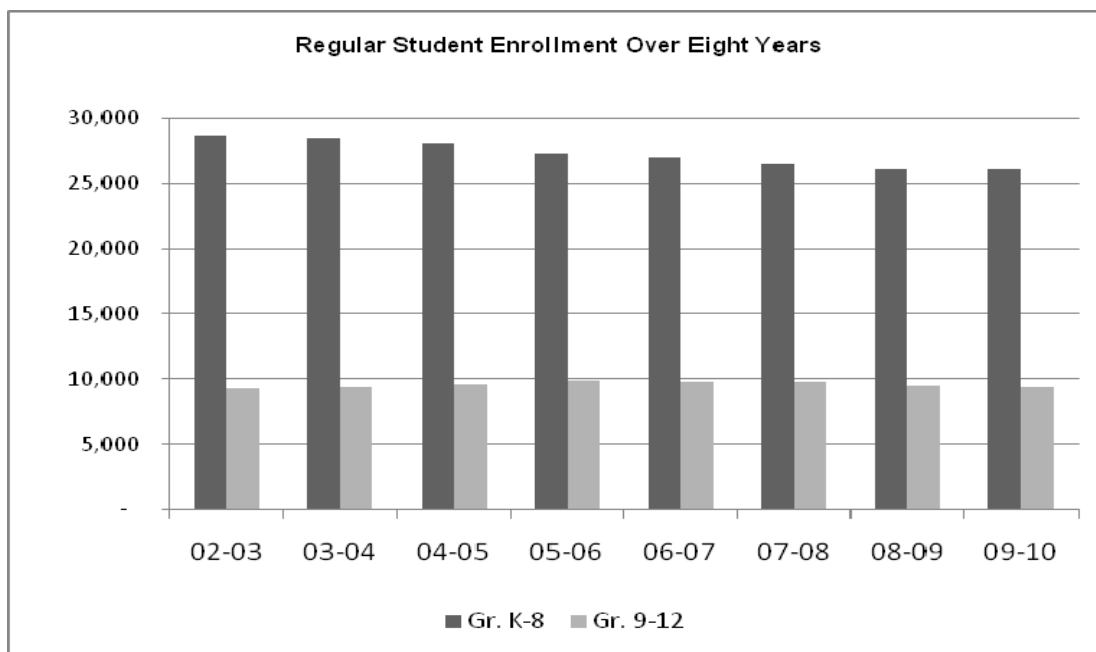
Enrollment can decline in a school district for many reasons: charter schools, home schooling, movement to neighboring districts, and migration to other states. Decisions made within the school district can also affect the student enrollment that converts to revenue for operational purposes. To illustrate, Richard A. Pittman Elementary School was converted from a regular school to a charter school for the start of the 2010-11 school year. While this change does not affect the overall enrollment of the District, the revenue generated from attendance by Pittman students is accounted for in a fund separate from the General Fund. To offset this revenue loss to the General Fund, the District works to make these school conversions as "cost neutral" as possible. This is accomplished through the transfer of school personnel and other operational costs, and charging for services provided. These services include transportation costs, textbook costs, rent for facilities, and a percentage cost for fiscal oversight. The District is looking into further allocation of central office costs, including services provided by the Payroll, Human Resources, Purchasing and Accounts Payable departments.

In planning a viable budget, the preparation of accurate enrollment projections is critical. It becomes even more important when the economy is struggling and revenue coming to the District is restricted or deferred by decisions made at the state level. The District continues to be vigilant in monitoring and projecting student enrollment. Over the last four years, projections have had a 0.4% variance to actual student enrollment. Work continues to refine methods in projecting enrollment which allows for better planning of the educational program and control over operational costs.

The District also continues to explore new alternatives to the traditional educational structure. Over the years, Stockton Unified School District has opened schools designed to meet the specialized needs of our students. Schools such as the Institute for Business, Management and Law, the Stockton Early College Academy, and the Primary Years Academy are just three examples of schools designed to meet the needs of students looking to accelerate their studies or wanting to concentrate in a certain occupational area. On the drawing board for the 2011-12 school year is the Health Careers Academy, a school designed for those students wishing to explore a career in the health care field.

In summary, student enrollment is the lifeblood of the District. Stockton Unified continues to work to provide educational programs which stimulate student learning and allows the District to retain the current student population and attract additional students.

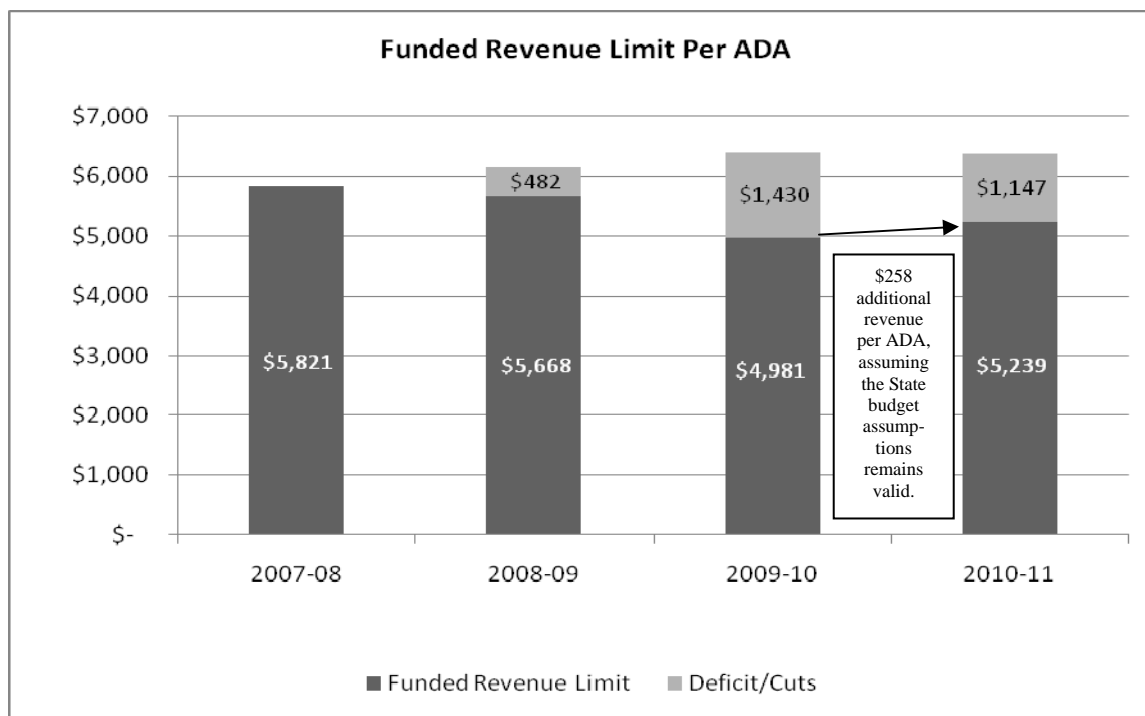
The chart which follows provides an overview of the school District's enrollment pattern over the past eight years.



Revenue Limit COLA

The Revenue Limit COLA represents a percentage of additional dollars allocated to school districts in support of local operations. It is the state's way of recognizing increased costs experienced by school districts. To help in balancing its' budget, the state can apply a deficit factor to reduce the amount of funding a school district actually receives. Depending on the sizes of the COLA and deficit factor, a school district can receive more or less revenue in a given year. For the 2010-11 year, a negative statutory COLA of 0.39% has been determined. This would normally reduce funding to school districts. The effects of the negative COLA are offset, however, through the imposition of a reduced deficit factor. The net effect of these adjustments is that, providing the 2010-11 state budget assumptions remain valid, the average school district will receive over \$250 of additional revenue per unit of Average Daily Attendance. The effect of this is displayed in the graph below. It is important to note that at the time this analysis is being prepared, a reported \$6.1 billion state budget deficit exists for the 2010-11 year, with a \$25.4 billion deficit projected through June of 2012. The Governor of California has called for a special session of the

State Legislature to address these shortfalls. Any adjustments made to the 2010-11 state budget could affect the funded Revenue Limit received by the district.



Note: See the narrative above regarding the Funded Revenue Limit per ADA for FY-2010-11.

Salaries and Benefits

Salaries and benefits are subject to negotiations each year based on collective bargaining agreements. Most school Districts negotiate based on “total compensation” which consists of salaries and benefits. Total compensation generally refers to increases in salaries and health benefits. The school District anticipates that upward pressure to increase salary compensation and health benefits will continue over the next few years. Currently, the District allocates approximately 83% of the total General Fund expenditure budget toward salary and benefit related areas. The District controls salary costs in a number of ways, including the monitoring of authorized positions in the budget, issuing hiring freezes when necessary, and restricting the use of additional and overtime pay.

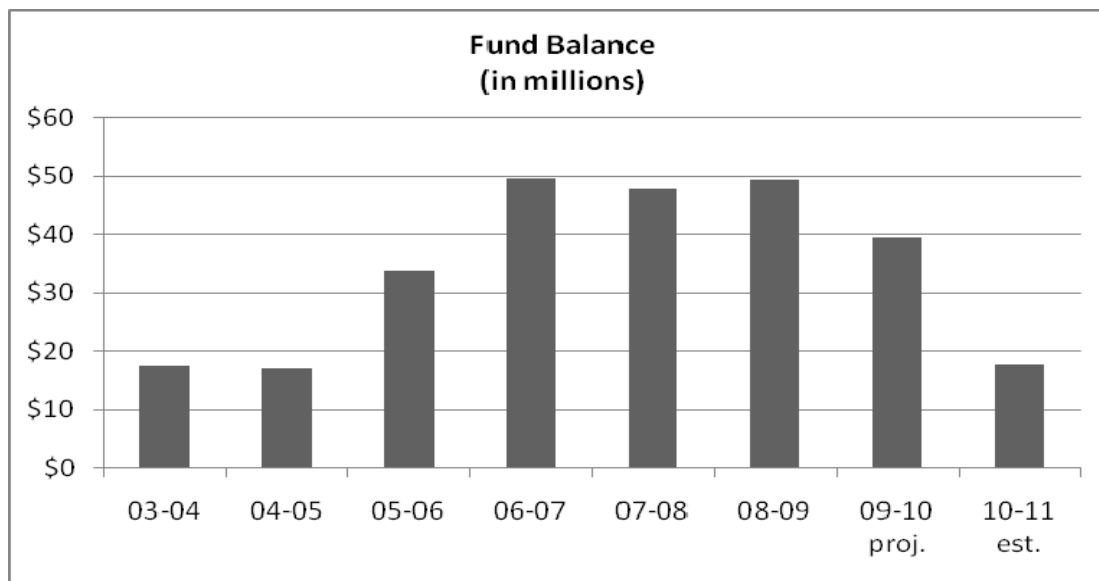
Health Rates

The cost of health care is expected to increase over the next few years. The District has established a health benefits allowance for 2010-11; however, upward pressure to increase the health benefits allowance will undoubtedly continue as health care cost continue to rise. The District is working with the employee bargaining groups to explore ways to maintain acceptable levels of employee health care at affordable costs. Even so, the District does not expect reduced health care costs in future years.

Fund Balance

The fund balance represents yearly differences between revenues and expenditures. The fund balance is either added “to” or subtracted “from” based on operational results of the District. Additionally, the fund balance is either unrestricted or restricted. An unrestricted fund balance means that unspent dollars are left to the District’s discretion. On the other hand, restricted dollars are not left to the school District’s discretion and are restricted based on guidelines established by the State Department of Education.

Additionally, the State Department of Education requires school Districts to maintain a “Reserve for Economic Uncertainties” for unforeseen emergencies. The reserve for this District is based on 2% of the total General Fund expenditures (approximately \$6.5 million.). Setting aside a state required reserve means that the District has fewer dollars available for operational areas. Based on current financial projections, the unrestricted fund balance for the District is expected to decline over the next few years due to the national economic situation, the expectation of low state COLA increases, and the continuing decline in student enrollment. The graph below shows the history of the District’s General Fund balance.



Note: The estimated fund balance for FY 2010-11 includes any restricted balance estimates.

Conclusion

The District continues to face many challenges: decreasing state funding, negotiating salary compensation, increased health care costs, maintenance of a positive fund balance, and effective cash management. Proper planning and foresight will be required for the District to balance financial resources with educational goals and objectives. School site staff, central office employees, and District administration are up to meeting these challenges with the goal being an educational program that will allow our students to gain the knowledge necessary to progress through life as informed and productive citizens.

Contacting the District’s Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors, and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Mr. Jason Willis, Chief Financial Officer, Stockton Unified School District, 701 North Madison Street, Stockton, CA 95202.

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2010

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and investments (Note 2) | \$ 195,597,061 |
| Accounts receivable | 61,616,293 |
| Prepaid expenditures | 5,578,916 |
| Stores inventory | 1,223,495 |
| Capital assets, net of accumulated depreciation (Note 4) | <u>434,346,148</u> |
| Total assets | <u>698,361,913</u> |
| LIABILITIES | |
| Accounts payable | 35,780,551 |
| TRANS payable | 10,240,000 |
| Claims liability (Note 5) | 11,229,719 |
| Deferred revenue | 8,089,035 |
| Long-term liabilities (Note 6): | |
| Due within one year | 30,751,632 |
| Due after one year | <u>337,274,390</u> |
| Total liabilities | <u>433,365,327</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 206,143,021 |
| Restricted (Note 7) | 60,047,456 |
| Unrestricted | <u>(1,193,891)</u> |
| Total net assets | <u>\$ 264,996,586</u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

| | | | | | Net (Expense) Revenue and Change in Net Assets |
|---|-----------------------|-------------------------------------|---|---|---|
| | Expenses | Charges For Services | Operating Grants and Contri- butions | Capital Grants and Contri- butions | Governmental Activities |
| Governmental activities (Note 4): | | | | | |
| Instruction | \$ 236,224,455 | \$ 1,417,464 | \$ 73,481,471 | \$ 6,903,894 | \$ (154,421,626) |
| Instruction-related services: | | | | | |
| Supervision of instruction | 21,784,056 | 170,843 | 16,243,727 | | (5,369,486) |
| Instructional library, media and technology | 1,321,251 | 1,535 | 497,657 | | (822,059) |
| School site administration | 19,697,509 | 40,133 | 1,012,775 | | (18,644,601) |
| Pupil services: | | | | | |
| Home-to-school transportation | 10,289,558 | 40,098 | 4,486,387 | | (5,763,073) |
| Food services | 14,200,415 | 776,384 | 15,127,476 | | 1,703,445 |
| All other pupil services | 14,876,663 | 381,629 | 6,096,787 | | (8,398,247) |
| General administration: | | | | | |
| Data processing | 2,914,242 | | 14,737 | | (2,899,505) |
| All other general administration | 12,187,210 | 78,454 | 2,470,671 | | (9,638,085) |
| Plant services | 34,330,841 | 45,351 | 1,139,598 | | (33,145,892) |
| Ancillary services | 917,888 | | 88,748 | | (829,140) |
| Community service | 17,318 | | | | (17,318) |
| Enterprise activities | 11,438 | | | | (11,438) |
| Other outgo | 408,103 | 21,323 | 595,469 | | 208,689 |
| Interest on long-term liabilities | 13,427,703 | | | | (13,427,703) |
| Unallocated depreciation | 403,219 | | | | (403,219) |
| Total governmental activities | \$ 383,011,869 | \$ 2,973,214 | \$ 121,255,503 | \$ 6,903,894 | (251,879,258) |
| General revenues: | | | | | |
| Taxes and subventions: | | | | | |
| Taxes levied for general purposes | | | | | 34,758,099 |
| Taxes levied for debt service | | | | | 15,515,064 |
| Taxes levied for other specific purposes | | | | | 1,061,267 |
| Federal and state aid not restricted to specific purposes | | | | | 179,598,851 |
| Interest and investment earnings | | | | | 2,326,108 |
| Interagency revenues | | | | | 133,941 |
| Miscellaneous | | | | | 1,600,108 |
| Total general revenues | | | | | 234,993,438 |
| Change in net assets | | | | | (16,885,820) |
| Net assets, July 1, 2009 | | | | | 281,882,406 |
| Net assets, June 30, 2010 | | | | | \$ 264,996,586 |

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

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2010

| | <u>General Fund (01)</u> | <u>Building Fund (21)</u> | <u>Capital Facilities Fund (25)</u> | <u>Special Reserve Fund (40)</u> | <u>All Non-Major Funds *</u> | <u>Total Governmental Funds</u> |
|--|------------------------------|-------------------------------|---|--|--------------------------------------|---|
| ASSETS | | | | | | |
| Cash and investments: | | | | | | |
| Cash in County Treasury | \$ 12,740,594 | | \$ 13,691,782 | | \$ 25,872,144 | \$ 52,304,520 |
| Cash in County Treasury restricted for capital projects | | \$ 26,808,205 | | \$ 79,259,143 | | 106,067,348 |
| Cash in revolving fund | 70,000 | | | | 2,500 | 72,500 |
| Cash awaiting deposit | | | | | 2,503 | 2,503 |
| Cash with Fiscal Agent | 1,598,473 | | 17,324,694 | 878,368 | 4,930,588 | 24,732,123 |
| Accounts receivable | 59,006,029 | 31,183 | 18,474 | 122,178 | 1,741,535 | 60,919,399 |
| Prepaid expenditures | 821,066 | | | | 1,080 | 822,146 |
| Due from other funds | 2,705,592 | 536,702 | | | 644,494 | 3,886,788 |
| Stores inventory | <u>924,156</u> | | | | <u>299,339</u> | <u>1,223,495</u> |
| Total assets | <u>\$ 77,865,910</u> | <u>\$ 27,376,090</u> | <u>\$ 31,034,950</u> | <u>\$ 80,259,689</u> | <u>\$ 33,494,183</u> | <u>\$ 250,030,822</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 18,909,938 | \$ 1,793,838 | \$ 517,073 | \$ 7,922,467 | \$ 939,612 | \$ 30,082,928 |
| Deferred revenue | 8,088,047 | | | | 988 | 8,089,035 |
| Due to other funds | 1,145,447 | 8,761 | 56,388 | 12,166 | 2,664,026 | 3,886,788 |
| TRANS Payable | <u>10,240,000</u> | | | | | <u>10,240,000</u> |
| Total liabilities | <u>38,383,432</u> | <u>1,802,599</u> | <u>573,461</u> | <u>7,934,633</u> | <u>3,604,626</u> | <u>52,298,751</u> |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Revolving fund | 70,000 | | | | 2,500 | 72,500 |
| Prepaid expenditures | 821,066 | | | | 1,080 | 822,146 |
| Stores inventory | 924,156 | | | | 299,339 | 1,223,495 |
| Unspent categorical revenue | 14,404,933 | | | | | 14,404,933 |
| Unreserved, reported in: | | | | | | |
| General Fund | 23,262,323 | | | | | 23,262,323 |
| Special Revenue Funds | | | | | 11,130,036 | 11,130,036 |
| Capital Projects Funds | | 25,573,491 | 30,461,489 | 72,325,056 | 26,393 | 128,386,429 |
| Debt Service Funds | | | | | <u>18,430,209</u> | <u>18,430,209</u> |
| Total fund balances | <u>39,482,478</u> | <u>25,573,491</u> | <u>30,461,489</u> | <u>72,325,056</u> | <u>29,889,557</u> | <u>197,732,071</u> |
| Total liabilities and fund balances | <u>\$ 77,865,910</u> | <u>\$ 27,376,090</u> | <u>\$ 31,034,950</u> | <u>\$ 80,259,689</u> | <u>\$ 33,494,183</u> | <u>\$ 250,030,822</u> |

* Refer to page 56.

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

STOCKTON UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET ASSETS**

June 30, 2010

Total fund balances - Governmental Funds \$ 197,732,071

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

Capital assets used for governmental activities are not
financial resources and, therefore, are not reported as
assets in governmental funds. The cost of the assets
is \$572,893,130 and the accumulated depreciation is
\$138,546,982 (Note 4). 434,346,148

Long-term liabilities are not due and payable in the current
period and, therefore, are not reported as liabilities in the
governmental funds. Long-term liabilities at June 30, 2010
consisted of (Note 6):

| | | |
|-------------------------------------|--------------------|---------------|
| General Obligation Bonds | \$ (266,100,251) | |
| Bond Anticipation Notes | (21,985,162) | |
| Certificates of Participation | (52,692,766) | |
| Capitalized lease obligations | (766,023) | |
| California Energy Commission Loan | (177,755) | |
| Qualified Zone Academy Bonds | (6,635,000) | |
| Post-employment healthcare benefits | (8,109,646) | |
| PARS Liability | (7,327,156) | |
| Compensated absences | <u>(4,232,263)</u> | |
| | | (368,026,022) |

Internal service funds are used to conduct certain activities
for which costs are charged to other funds on a full cost-
recovery basis. Net assets of the Self-Insurance Fund
are: 974,767

In the governmental funds, interest on long-term liabilities is
not recognized until the period in which it matures and is
paid. In the government-wide statement of activities, it is
recognized in the period that it is incurred. (4,376,768)

In the governmental funds, revenue is recognized only to the
extent it is available. Receivables for revenues that are
earned but unavailable are deferred until the period in which
the revenues become available. In the government-wide
statements, revenue is recognized when earned, regardless
of availability. 155,584

Costs associated with the issuance of long-term liabilities
are not financial resources and, therefore, are not reported
as assets in governmental funds. 4,190,806

Total net assets - governmental activities \$ 264,996,586

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

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES**

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2010

| | <u>General Fund (01)</u> | <u>Building Fund (21)</u> | <u>Capital Facilities Fund (25)</u> | <u>Special Reserve Fund (40)</u> | <u>All Non-Major Funds *</u> | <u>Total Governmental Funds</u> |
|--|------------------------------|-------------------------------|---|--|--------------------------------------|---|
| Revenues: | | | | | | |
| Revenue limit sources: | | | | | | |
| State apportionment | \$ 140,393,160 | | | | \$ 2,764,519 | \$ 143,157,679 |
| Local sources | <u>33,121,342</u> | | | | | <u>33,121,342</u> |
| Total revenue limit | <u>173,514,502</u> | | | | <u>2,764,519</u> | <u>176,279,021</u> |
| Federal sources | 43,191,530 | | | | 15,925,492 | 59,117,022 |
| Other state sources | 89,646,091 | | | | 15,546,758 | 105,192,849 |
| Other local sources | <u>5,333,206</u> | <u>\$ 1,239,450</u> | <u>\$ 2,041,544</u> | <u>\$ 535,088</u> | <u>16,543,796</u> | <u>25,693,084</u> |
| Total revenues | <u>311,685,329</u> | <u>1,239,450</u> | <u>2,041,544</u> | <u>535,088</u> | <u>50,780,565</u> | <u>366,281,976</u> |
| Expenditures: | | | | | | |
| Certificated salaries | 150,697,880 | | | | 3,797,623 | 154,495,503 |
| Classified salaries | 46,632,063 | | | 224,324 | 6,328,043 | 53,184,430 |
| Employee benefits | 73,230,204 | | | 97,088 | 4,923,713 | 78,251,005 |
| Books and supplies | 16,812,374 | 978,603 | | 80,308 | 6,534,319 | 24,405,604 |
| Contract services and operating expenditures | 35,416,360 | 699,650 | 996,277 | 1,010,242 | 1,216,312 | 39,338,841 |
| Capital outlay | 39,134 | 12,145,960 | 773,046 | 21,574,116 | 1,140,051 | 35,672,307 |
| Other outgo | 332,736 | | | | | 332,736 |
| Debt service: | | | | | | |
| Principal retirement | 500,185 | | 599,913 | | 6,291,457 | 7,391,555 |
| Interest | <u>25,897</u> | | <u>662,314</u> | <u>851,366</u> | <u>12,878,472</u> | <u>14,418,049</u> |
| Total expenditures | <u>323,686,833</u> | <u>13,824,213</u> | <u>3,031,550</u> | <u>23,837,444</u> | <u>43,109,990</u> | <u>407,490,030</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(12,001,504)</u> | <u>(12,584,763)</u> | <u>(990,006)</u> | <u>(23,302,356)</u> | <u>7,670,575</u> | <u>(41,208,054)</u> |
| Other financing sources (uses): | | | | | | |
| Operating transfers in | 2,759,446 | 6,903,894 | | 15,441,744 | 959,766 | 26,064,850 |
| Operating transfers out | (623,126) | (15,778,384) | | | (9,663,340) | (26,064,850) |
| Proceeds from the issuance of long-term liabilities | | <u>16,040,000</u> | | | | <u>16,040,000</u> |
| Total other financing sources (uses) | <u>2,136,320</u> | <u>7,165,510</u> | | <u>15,441,744</u> | <u>(8,703,574)</u> | <u>16,040,000</u> |
| Change in fund balances | (9,865,184) | (5,419,253) | (990,006) | (7,860,612) | (1,032,999) | (25,168,054) |
| Fund balances, July 1, 2009 | <u>49,347,662</u> | <u>30,992,744</u> | <u>31,451,495</u> | <u>80,185,668</u> | <u>30,922,556</u> | <u>222,900,125</u> |
| Fund balances, June 30, 2010 | <u>\$ 39,482,478</u> | <u>\$ 25,573,491</u> | <u>\$ 30,461,489</u> | <u>\$ 72,325,056</u> | <u>\$ 29,889,557</u> | <u>\$ 197,732,071</u> |

* Refer to page 57.

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

STOCKTON UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2010

Net change in fund balances - Total Governmental Funds \$ (25,168,054)

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

Acquisition of capital assets is an expenditure in the
governmental funds, but increases capital assets in
the statement of net assets (Note 4). \$ 36,626,863

In government 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 disposal of capital
assets and the resulting gain or loss is: (Note 4). (4,000)

Depreciation of capital assets is an expense that is not
recorded in the governmental funds (Note 4). (10,688,087)

Issuance of long-term liabilities is an other financing
source in the governmental funds, but increases the
long-term liabilities in the statement of net assets.
Amounts recognized in government funds as proceeds
from debt, net of issue premium or discount, were (Note 6): (16,040,000)

Repayment of principal on long-term liabilities is an expend-
iture in the governmental funds, but decreases the long-
term liabilities in the statement of net assets (Note 6). 7,391,555

In government funds, debt issue costs are recognized as
expenditures in the period they are incurred. In
government-wide statements, issue costs are amortized
over the life of the debt. 192,772

In the governmental funds, revenue is recognized only to
the extent it is available. Receivables for revenues that
are earned but unavailable are deferred until the period in
which the revenues become available. In the government-
wide statements, revenue is recognized when earned,
regardless of availability. (151,931)

In governmental funds, interest on long-term liabilities is
recognized in the period that it becomes due. In the
government-wide statement of activities, it is recognized
in the period that it is incurred. 729,273

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES**

(Continued)

For the Year Ended June 30, 2010

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost recovery basis. The change in net assets for the Self-Insurance Fund was:

\$ (1,098,319)

In government funds, OPEB costs are recognized when when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 6).

(633,809)

In government funds, expenses related to the supplemental employee retirement program are measured by the amounts paid in the year. In the statement of activities, SERP is recognized on the accrual basis (Note 6).

(7,327,156)

In the statement of activities, expenses related to post-employment benefits and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).

(714,927) \$ 8,282,234

Change in net assets of governmental activities

\$ (16,885,820)

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
SELF-INSURANCE FUND

June 30, 2010

ASSETS

| | |
|-------------------------|-----------------------|
| Cash and investments: | |
| Cash in County Treasury | \$ 12,028,067 |
| Cash with Fiscal Agent | 390,000 |
| Accounts receivable | 541,310 |
| Prepaid expenses | <u>565,964</u> |
| Total assets | <u>13,525,341</u> |

LIABILITIES

| | |
|-----------------------|-----------------------|
| Accounts payable | 1,320,855 |
| Claims liability | <u>11,229,719</u> |
| Total liabilities | <u>12,550,574</u> |

NET ASSETS

| | |
|------------|--------------------------|
| Restricted | <u><u>\$ 974,767</u></u> |
|------------|--------------------------|

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET ASSETS - PROPRIETARY FUND

SELF-INSURANCE FUND

For the Year Ended June 30, 2010

| | |
|---------------------------------|--------------------------|
| Operating revenues: | |
| Self-insurance premiums | \$ 19,150,198 |
| Other local revenues | <u>1,116,282</u> |
| Total operating revenues | <u>20,266,480</u> |
| Operating expenses: | |
| Classified salaries | 281,249 |
| Employee benefits | 125,848 |
| Books and supplies | 30,117 |
| Contract services | <u>21,005,502</u> |
| Total operating expenses | <u>21,442,716</u> |
| Operating loss | (1,176,236) |
| Non-operating income: | |
| Interest income | <u>77,917</u> |
| Change in net assets | (1,098,319) |
| Total net assets, July 1, 2009 | <u>2,073,086</u> |
| Total net assets, June 30, 2010 | <u><u>\$ 974,767</u></u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND

For the Year Ended June 30, 2010

| | |
|---|------------------------------|
| Cash flows from operating activities: | |
| Cash received from self-insurance premiums | \$ 20,078,571 |
| Cash paid for employee benefits | (15,462,742) |
| Cash paid for other expenses | <u>(5,649,779)</u> |
| Net cash used in operating activities | <u>(1,033,950)</u> |
| Cash flows provided by investing activities: | |
| Interest income received | <u>77,917</u> |
| Transfer from other fund | <u>450,000</u> |
| Decrease in cash and cash equivalents | (506,033) |
| Cash and cash equivalents, July 1, 2009 | <u>12,924,100</u> |
| Cash and cash equivalents, June 30, 2010 | <u><u>\$ 12,418,067</u></u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ <u>(1,176,236)</u> |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| (Increase) decrease in: | |
| Accounts receivable | (187,909) |
| Prepaid expenses | (565,964) |
| Increase (decrease) in: | |
| Accounts payable | 898,942 |
| Amount due to other funds | <u>(2,783)</u> |
| Total adjustments | <u>142,286</u> |
| Net cash used in operating activities | <u><u>\$ (1,033,950)</u></u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS

June 30, 2010

| | <u>Trust Fund</u> | <u>Agency Fund</u> | |
|------------------------------------|------------------------------|-----------------------------------|-------------------|
| | <u>Scholarship Trust</u> | <u>Student Body Funds</u> | <u>Total</u> |
| ASSETS | | | |
| Cash on hand and in banks (Note 2) | \$ 868,873 | \$ 627,514 | \$ 1,496,387 |
| LIABILITIES | | | |
| Due to student groups | <u> </u> | <u>627,514</u> | <u>627,514</u> |
| NET ASSETS | | | |
| Restricted (Note 7) | <u>\$ 868,873</u> | <u>\$ -</u> | <u>\$ 868,873</u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2010

| | <u>Scholarship Trust</u> |
|---|------------------------------|
| Revenues: | |
| Other local sources | \$ 34,746 |
| Expenditures: | |
| Contract services and operating expenditures | <u>49,182</u> |
| Deficiency of revenues under expenditures | (14,436) |
| Net assets, July 1, 2009 | <u>883,309</u> |
| Net assets, June 30, 2010 | <u><u>\$ 868,873</u></u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stockton Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California 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 as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District, Stockton Unified School District Community Facilities District No. 1 (the "CFD") and Stockton Unified School District Financing Corporation (the "Corporation") have a financial and operational relationship which meet the reporting entity definition criteria of the *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, for inclusion of the CFD and the Corporation as component units of the District. Therefore, the financial activities of the CFD and the Corporation have been included in the basic financial statements of the District.

The following are those aspects of the relationship between the District, the CFD and the Corporation which satisfy *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100* criteria:

A - Manifestations of Oversight

1. The CFD's and Corporation's Board of Directors were appointed by the District's Board of Education.
2. The Corporation has no employees. The District's Superintendent and Assistant Superintendent/Chief Financial Officer function as agents of the Corporation. Neither individual received additional compensation for work performed in this capacity.
3. The District exercises significant influence over operations of the CFD and the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the CFD and the Corporation.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the CFD and the Corporation must have the consent of the District.
2. Any deficits incurred by the CFD and the Corporation will be reflected in the lease payments of the District. Any surpluses of the CFD and the Corporation revert to the District at the end of the lease period.
3. It is anticipated that the District's lease payments will be the sole revenue source of the CFD and the Corporation.
4. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the CFD and the Corporation.

C - Scope of Public Service and Financial Presentation

1. The CFD and the Corporation were created for the sole purpose of financially assisting the District.
2. The CFD is a legally-constituted governmental entity, established under the authority of the Mello-Roos Community Facilities Act of 1982. The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The CFD and the Corporation were formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion the District intends to occupy all CFD and the Corporation facilities. When the CFD's and the Corporation's long-term liabilities have been paid with state reimbursements and the District's developer fees, title of all CFD and the Corporation property will pass to the District for no additional consideration.
3. The CFD's financial activity is presented in the financial statements as the Mello-Roos Fund. The Corporation's financial activity is presented in the financial statements as the Capital Facilities Fund.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements

The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets and the Statement of Change in Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories which, in aggregate, include seven fund types as follows:

A - Governmental Fund Types

1. General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

2. Special Revenue Funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Charter School, Adult Education, Child Development, Cafeteria and Deferred Maintenance Funds.

3. Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of capital facilities by the District. This classification includes the Building, Capital Facilities, Special Reserve, County School Facilities and Mello-Roos Funds.

4. Debt Service Funds:

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This classification includes the Bond Interest and Redemption, Tax Override and Debt Service Funds.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

B - Proprietary Funds

1. Self-Insurance Fund:

The Self-Insurance Fund is an Internal Service Fund used to account for services rendered on a cost-reimbursement basis within the District. The Self-Insurance Fund is used to provide workers' compensation, dental and vision benefits to employees of the District.

C - Fiduciary Funds

1. Trust Funds:

The District maintains one Trust Fund. The Scholarship Trust Fund is used to account for assets held by the District as Trustee.

2. Agency Funds:

Student Body Funds:

Student Body Funds are used to account for revenues and expenditures of the various student body organizations. All cash activity, assets and liabilities of the various student bodies of the District are accounted for in Student Body Funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting

By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

The District employs budget control by major object code and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. The budgets are revised during the year by the Board of Education to provide for unanticipated revenues and expenditures. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information.

Stores Inventory

Inventories in the General and Cafeteria Funds are valued at average cost. Inventory recorded in the General and Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

Cafeteria Food Purchases

Cafeteria purchases include food purchased through the State of California Office of Surplus Property, for which the District is required to pay only a handling charge. The state does not require the Cafeteria Fund to record the fair market value of these commodities. The expenditures for these items would have been greater had the District paid fair market value for the government surplus food commodities.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$50,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 50 years depending on asset types.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences totaling \$4,232,263 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

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

Deferred Revenue

Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenditures and stores inventory reflect the portions of net assets represented by revolving cash fund, prepaid expenditures and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues and state programs represent programs where the revenue received is restricted for expenditures only in that particular program. The restriction for special revenues represents the portion of net assets restricted for special purposes. The restriction for debt service repayments represents the portion of net assets which the District plans to expend on debt repayment. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for self insurance represents the portion of net assets restricted for paying insurance premiums. The restriction for scholarships represents the portion of net assets to be used to provide financial assistance to students of the District.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of January 1. Taxes are due in two installments on or before November 15 and March 15. Unsecured property taxes are due in one installment on or before August 31. The County of San Joaquin bills and collects taxes for the District. Tax revenues are recognized by the District when received.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2010 are reported at fair value and consisted of the following:

| | Governmental Activities | | | Fiduciary |
|--|-------------------------|----------------------|-----------------------|---------------------|
| | Governmental Funds | Proprietary Fund | Total | Activities |
| Pooled Funds: | | | | |
| Cash in County Treasury | \$ 52,304,520 | \$ 12,028,067 | \$ 64,332,587 | |
| Cash in County Treasury - restricted for capital projects | 106,067,348 | | 106,067,348 | |
| Cash awaiting deposit | <u>2,503</u> | | <u>2,503</u> | |
| Total pooled funds | <u>158,374,371</u> | <u>12,028,067</u> | <u>170,402,438</u> | |
| Deposits: | | | | |
| Cash on hand and in banks | | | | \$ 1,496,387 |
| Cash in revolving fund | <u>72,500</u> | | <u>72,500</u> | |
| Total deposits | <u>72,500</u> | | <u>72,500</u> | <u>1,496,387</u> |
| Investments: | | | | |
| Cash with Fiscal Agent | <u>24,732,123</u> | <u>390,000</u> | <u>25,122,123</u> | |
| Total cash and investments | <u>\$ 183,178,994</u> | <u>\$ 12,418,067</u> | <u>\$ 195,597,061</u> | <u>\$ 1,496,387</u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS (Continued)

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Joaquin County Treasury. The County pools these funds with those of school districts in the County and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the San Joaquin County Treasurer may invest in derivative securities. However, at June 30, 2010, the San Joaquin County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk - Deposits

Cash balances held in banks and revolving funds are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). As of June 30, 2010, the carrying amount of the District's accounts were \$1,568,887, and the bank balances were \$1,371,399. Of the bank balances, \$255,479 was covered by the FDIC insurance and \$1,115,920 was uninsured. Uninsured balances are fully collateralized by the banks in accordance with applicable law.

Investments

The Cash with Fiscal Agent in the Governmental Funds represents Debt proceeds that have been set aside for capital projects and the repayment of long-term liabilities. These amounts are held by a third party custodian in the District's name.

The Cash with Fiscal Agent in the Proprietary Fund represents cash segregated for the future payment of self-insured benefits. These amounts are held by a third party custodian in the District's name.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2010, the District had no significant interest rate risk related to cash and investments held.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS (Continued)

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2010, the District had no concentration of credit risk.

3. INTERFUND TRANSACTIONS

Interfund Activity

Transactions between funds of the District are recorded as interfund transfers, except for the Self-Insurance Fund activity which is recorded as income and expenditures of the Self-Insurance Fund and the funds which incur payroll costs, respectively. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2010 were as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|--------------------|----------------------------------|-------------------------------|
| Major Funds: | | |
| General | \$ 2,705,592 | \$ 1,145,447 |
| Building | 536,702 | 8,761 |
| Capital Facilities | | 56,388 |
| Special Reserve | | 12,166 |
| Non-Major Funds: | | |
| Charter School | 242,199 | 276,595 |
| Adult Education | 26,842 | 2,164,690 |
| Child Development | 276,093 | 150,204 |
| Cafeteria | <u>99,360</u> | <u>72,537</u> |
| Totals | <u>\$ 3,886,788</u> | <u>\$ 3,886,788</u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

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

Interfund transfers for the 2009-2010 fiscal year were as follows:

| | |
|--|-----------------------------|
| Transfer from the General Fund to the Charter School Fund to cover Charter High School expenses. | \$ 623,126 |
| Transfer from the Building Fund to the Special Reserve Fund of General Obligation Bond proceeds to support Measure Q project expenses. | 15,441,744 |
| Transfer from the Building Fund to the Bond Interest Redemption Fund for the portion of the General Obligation Bond proceeds to be invested in the County investment pool. | 336,640 |
| Transfer from the Adult Education Fund to the General Fund to account for the current year allocation of adult education funding. | 2,004,050 |
| Transfer from the Adult Education Fund to the General Fund for indirect support. | 29,263 |
| Transfer from the Child Development Fund to the General Fund for indirect support. | 140,740 |
| Transfer from the Cafeteria Fund to the General Fund for indirect support. | 518,479 |
| Transfer from the County School Facilities Fund to the Building Fund for reimbursement/support for the approved projects from State apportionment funding. | 6,903,894 |
| Transfer from the Debt Service Fund to the General Fund for residual of interest earned. | <u>66,914</u> |
| | <u><u>\$ 26,064,850</u></u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2010 is shown below:

| | Balance July 1, 2009 | Transfers and Additions | Transfers and Deductions | Balance June 30, 2010 |
|--------------------------------|----------------------------|-------------------------------|--------------------------------|-----------------------------|
| <u>Governmental Activities</u> | | | | |
| Non-depreciable: | | | | |
| Land | \$ 21,169,097 | \$ 4,566,256 | | \$ 25,735,353 |
| Work-in-process | 69,135,911 | 36,626,863 | \$ (32,038,855) | 73,723,919 |
| Depreciable: | | | | |
| Buildings | 428,050,356 | 26,160,795 | | 454,211,151 |
| Equipment | 12,845,333 | | 80,000 | 12,765,333 |
| Site Improvements | <u>5,145,570</u> | <u>1,311,804</u> | | <u>6,457,374</u> |
| Totals, at cost | <u>536,346,267</u> | <u>68,665,718</u> | <u>(31,958,855)</u> | <u>572,893,130</u> |
| Less accumulated depreciation: | | | | |
| Buildings | (115,967,025) | (9,622,526) | | (125,589,551) |
| Site Improvements | (3,067,590) | (151,003) | | (3,218,593) |
| Equipment | <u>(8,900,280)</u> | <u>(914,558)</u> | <u>(76,000)</u> | <u>(9,738,838)</u> |
| Total accumulated depreciation | <u>(127,934,895)</u> | <u>(10,688,087)</u> | <u>(76,000)</u> | <u>(138,546,982)</u> |
| Capital assets, net | <u>\$ 408,411,372</u> | <u>\$ 57,977,631</u> | <u>\$ (32,034,855)</u> | <u>\$ 434,346,148</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|----------------------|
| Instruction | \$ 9,713,323 |
| Home to school | 358,357 |
| Food services | 22,849 |
| All other general administration | 132,825 |
| Plant services | 57,514 |
| Unallocated | <u>403,219</u> |
| Total depreciation expense | <u>\$ 10,688,087</u> |

5. RISK MANAGEMENT/CLAIMS LIABILITIES

The District has established a Self-Insurance Fund to account for employee vision benefits, employee dental benefits and workers' compensation plans. The employee vision and dental plans are self insured and contract with a third party administrator for benefits processing. Until July 31, 1998 and from July 1, 2001 through June 30, 2005, the workers' compensation plan provided coverage up to \$250,000 and purchased excess insurance for claims over the retained coverage limit. Between August 1, 1998 and June 30, 2001, and after July 1, 2005, the District purchased insurance for the workers' compensation coverage.

The liability for unpaid claims and claim adjustment expenses represents the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. These claims will be paid in future years.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

5. RISK MANAGEMENT/CLAIMS LIABILITIES (Continued)

District management recomputes the liability annually using available updated claims data. Every three years, the District contracts with an actuary who performs an actuarial study using a variety of statistical techniques to produce current estimates that consider claim frequency and other economic factors. The liability for workers compensation is based on an actuarial study dated April 1, 2010.

The liabilities for unpaid claims and claim adjustment expenses are as follows:

| | <u>June 30, 2010</u> | <u>June 30, 2009</u> |
|---|-----------------------------|-----------------------------|
| Unpaid claim and claim adjustment expenses, beginning of year | \$ 11,359,427 | \$ 13,290,628 |
| Total incurred claims and claim adjustment expenses | 15,207,186 | 13,000,959 |
| Total payments | <u>(15,336,894)</u> | <u>(14,932,160)</u> |
| Total unpaid claims and claim adjustment expenses at end of year | <u><u>\$ 11,229,719</u></u> | <u><u>\$ 11,359,427</u></u> |

6. LONG-TERM LIABILITIES

General Obligation Bonds

Series 2001:

On June 20, 2001, the District issued General Obligation Bonds, Series 2001, totaling \$22,800,000. The bonds bear interest at rates ranging from 4.25% to 6.00% and are scheduled to mature through July 2026 as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|-----------------------------|----------------------------|-----------------------------|
| 2011 | \$ 765,000 | \$ 902,519 | \$ 1,667,519 |
| 2012 | 800,000 | 861,269 | 1,661,269 |
| 2013 | 835,000 | 822,731 | 1,657,731 |
| 2014 | 875,000 | 786,444 | 1,661,444 |
| 2015 | 915,000 | 747,531 | 1,662,531 |
| 2016-2020 | 5,295,000 | 3,052,491 | 8,347,491 |
| 2021-2025 | 6,800,000 | 1,630,375 | 8,430,375 |
| 2026-2027 | <u>1,596,000</u> | <u>159,900</u> | <u>1,755,900</u> |
| | <u><u>\$ 17,881,000</u></u> | <u><u>\$ 8,963,260</u></u> | <u><u>\$ 26,844,260</u></u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2003:

On January 9, 2003, the District issued General Obligation Bonds, Series 2003, totaling \$28,000,000. The bonds bear interest at rates ranging from 3.00% to 5.25% and are scheduled to mature through January 2028 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2011 | \$ 885,000 | \$ 1,101,064 | \$ 1,986,064 |
| 2012 | 925,000 | 1,071,859 | 1,996,859 |
| 2013 | 960,000 | 1,039,484 | 1,999,484 |
| 2014 | 995,000 | 1,001,084 | 1,996,084 |
| 2015 | 1,035,000 | 956,309 | 1,991,309 |
| 2016-2020 | 5,885,000 | 3,870,519 | 9,755,519 |
| 2021-2025 | 7,370,000 | 2,240,086 | 9,610,086 |
| 2026-2028 | <u>5,335,000</u> | <u>408,625</u> | <u>5,743,625</u> |
| | <u><u>\$ 23,390,000</u></u> | <u><u>\$ 11,689,030</u></u> | <u><u>\$ 35,079,030</u></u> |

Series 2004:

On January 8, 2004, the District issued General Obligation Bonds, Series 2004, totaling \$29,200,000. The bonds bear interest at rates ranging from 3.00% to 5.00% and are scheduled to mature through January 2029 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|-----------------------------|-----------------------------|-----------------------------|
| 2011 | \$ 900,000 | \$ 1,109,184 | \$ 2,009,184 |
| 2012 | 935,000 | 1,064,184 | 1,999,184 |
| 2013 | 965,000 | 1,036,134 | 2,001,134 |
| 2014 | 1,000,000 | 1,003,565 | 2,003,565 |
| 2015 | 1,035,000 | 968,565 | 2,003,565 |
| 2016-2020 | 5,870,000 | 4,083,728 | 9,953,728 |
| 2021-2025 | 7,315,000 | 2,607,024 | 9,922,024 |
| 2026-2029 | <u>7,205,000</u> | <u>699,476</u> | <u>7,904,476</u> |
| | <u><u>\$ 25,225,000</u></u> | <u><u>\$ 12,571,860</u></u> | <u><u>\$ 37,796,860</u></u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2006:

On February 8, 2006, the District issued General Obligation Bonds, Series 2006, totaling \$60,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through September 2030 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 165,000 | \$ 2,501,525 | \$ 2,666,525 |
| 2012 | 410,000 | 2,490,025 | 2,900,025 |
| 2013 | 560,000 | 2,470,625 | 3,030,625 |
| 2014 | 725,000 | 2,444,925 | 3,169,925 |
| 2015 | 895,000 | 2,412,525 | 3,307,525 |
| 2016-2020 | 7,710,000 | 11,236,550 | 18,946,550 |
| 2021-2025 | 14,830,000 | 8,798,506 | 23,628,506 |
| 2026-2030 | 25,115,000 | 4,555,731 | 29,670,731 |
| 2031 | <u>6,610,000</u> | <u>150,378</u> | <u>6,760,378</u> |
| | <u>\$ 57,020,000</u> | <u>\$ 37,060,790</u> | <u>\$ 94,080,790</u> |

Series 2007:

On July 12, 2007, the District issued General Obligation Bonds, Series 2007, totaling \$60,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through August 2031 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 1,805,000 | \$ 2,769,250 | \$ 4,574,250 |
| 2012 | 1,765,000 | 2,697,850 | 4,462,850 |
| 2013 | 1,830,000 | 2,625,950 | 4,455,950 |
| 2014 | 1,885,000 | 2,549,294 | 4,434,294 |
| 2015 | 1,960,000 | 2,467,588 | 4,427,588 |
| 2016-2020 | 10,755,000 | 10,874,381 | 21,629,381 |
| 2021-2025 | 12,410,000 | 7,964,375 | 20,374,375 |
| 2026-2030 | 13,230,000 | 4,800,963 | 18,030,963 |
| 2031-2032 | <u>12,580,000</u> | <u>247,500</u> | <u>12,827,500</u> |
| | <u>\$ 58,220,000</u> | <u>\$ 36,997,151</u> | <u>\$ 95,217,151</u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

2008 Series A:

On May 6, 2008, the District issued 2008 General Obligation Bonds, Series A, totaling \$65,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through August 2032 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|----------------------|----------------------|-----------------------|
| 2011 | \$ 1,600,000 | \$ 2,811,175 | \$ 4,411,175 |
| 2012 | 1,700,000 | 2,745,175 | 4,445,175 |
| 2013 | 1,800,000 | 2,675,175 | 4,475,175 |
| 2014 | 2,000,000 | 2,599,175 | 4,599,175 |
| 2015 | 2,100,000 | 2,517,175 | 4,617,175 |
| 2016-2020 | 11,700,000 | 11,233,875 | 22,933,875 |
| 2021-2025 | 13,800,000 | 8,598,350 | 22,398,350 |
| 2026 | 17,100,000 | 4,960,113 | 22,060,113 |
| 2031-2033 | <u>12,300,000</u> | <u>895,375</u> | <u>13,195,375</u> |
| | <u>\$ 64,100,000</u> | <u>\$ 39,035,588</u> | <u>\$ 103,135,588</u> |

2008 Series B:

On December 17, 2009, the District issued 2008 General Obligation Bonds, Series B, totaling \$16,040,000. The bonds bear a coupon rate of 2.19% and are scheduled to mature through December 2025 as follows:

| Year Ended June 30, | Principal | Interest | Total |
|------------------------|----------------------|---------------------|----------------------|
| 2011 | | \$ 351,276 | \$ 351,276 |
| 2012 | | 351,276 | 351,276 |
| 2013 | | 351,276 | 351,276 |
| 2014 | | 351,276 | 351,276 |
| 2015 | | 351,276 | 351,276 |
| 2016-2020 | | 1,756,380 | 1,756,380 |
| 2021-2025 | | 1,756,380 | 1,756,380 |
| 2026 | <u>\$ 16,040,000</u> | <u>175,638</u> | <u>16,215,638</u> |
| | <u>\$ 16,040,000</u> | <u>\$ 5,444,778</u> | <u>\$ 21,484,778</u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2009:

On February 1, 2009, the District issued Bond Anticipation Notes, Series 2009, totaling \$21,955,000. The 2009 Notes were issued for the purpose of financing costs relating to the acquisition and construction of education projects and facilities, funding capitalized interest through maturity, and paying cost of issuance. These Notes were issued in anticipation of the issuance of a series of general obligation bonds which were approved on the general election on February 5, 2008. The notes bear an interest rate of 4.00% and are scheduled to mature on February 2011 as follows:

| <u>Year Ended June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|----------------------|-------------------|----------------------|
| 2011 | <u>\$ 21,955,000</u> | <u>\$ 878,200</u> | <u>\$ 22,833,200</u> |

Certificates of Participation (COPs)

In January 2004, the District issued Certificates of Participation in the amount of \$11,999,981 with interest rates from 1.700% to 5.50%, maturing on February 3, 2034:

| <u>Year Ending June 30,</u> | <u>COPs Payments</u> |
|---------------------------------------|--------------------------|
| 2011 | \$ 260,000 |
| 2012 | 295,000 |
| 2013 | 325,000 |
| 2014 | 390,000 |
| 2015 | 450,000 |
| 2016-2020 | 3,845,000 |
| 2021-2025 | 7,855,000 |
| 2026-2030 | 9,575,000 |
| 2031-2034 | <u>10,655,020</u> |
| Total payments | 33,650,020 |
| Less amount representing interest | <u>(22,258,705)</u> |
| Net present value of minimum payments | <u>\$ 11,391,315</u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (COPs) (Continued)

In February 2007, the District issued Certificates of Participation in the amount of \$45,050,000 with interest rates from 4.00% to 5.00%, maturing on February 1, 2036.

Scheduled payments for the COPs are as follows:

| <u>Year Ending June 30,</u> | <u>COPs Payments</u> |
|---------------------------------------|-----------------------------|
| 2011 | \$ 3,164,140 |
| 2012 | 3,124,890 |
| 2013 | 3,099,390 |
| 2014 | 2,621,890 |
| 2015 | 2,619,890 |
| 2016-2020 | 13,104,450 |
| 2021-2025 | 13,091,340 |
| 2026-2030 | 13,094,813 |
| 2031-2035 | 13,095,206 |
| 2036 | <u>2,617,725</u> |
| Total payments | 69,633,734 |
| Less amount representing interest | <u>(28,488,734)</u> |
| Net present value of minimum payments | <u><u>\$ 41,145,000</u></u> |

Capitalized Lease Obligations

The District leases computers, office equipment and buses under long-term lease purchase agreements. The following is a schedule of future lease payments:

| <u>Year Ending June 30,</u> | <u>Lease Payments</u> |
|-----------------------------------|---------------------------|
| 2011 | \$ 428,376 |
| 2012 | <u>386,014</u> |
| Total payments | 814,390 |
| Less amount representing interest | <u>(48,367)</u> |
| Net minimum lease payments | <u><u>\$ 766,023</u></u> |

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

California Energy Commission Loans

In August 2000 and June 2001 the District entered into contracts with the California Energy Commission to receive money for energy conservation projects. On March 7, 2003, the District entered into an agreement with Sun Trust Leasing to replace the contracts with California Energy Commission. The agreement with Sun Trust Leasing bears interest at 3.41% and matures on June 22, 2011:

| <u>Year Ended</u> <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|-------------------|-----------------|-------------------|
| 2011 | <u>\$ 177,755</u> | <u>\$ 4,556</u> | <u>\$ 182,311</u> |

Qualified Zone Academy Bonds

On June 1, 2000, the District issued \$1,635,000 in Qualified Zone Academy Bonds and entered into a purchase contract in the amount of \$1,635,000 with the Bank of Agriculture and Commerce, whereby the Bank agreed to finance the acquisition of certain improvements to the District's Weber Institute and sell the improvements to the District upon specified terms and conditions. Under the terms of the contract, the District has deposited \$770,000 with the Bank as collateral for the bonds, which the Bank will hold for the account of the District in the form of a certificate of deposit bearing interest at 6.304 percent per annum, compounded monthly, and payable on June 13, 2012. The certificate of deposit together with the interest earnings will be sufficient to repay the Bonds which mature on June 13, 2012.

On November 24, 2003, the District issued \$5,000,000 in Qualified Zone Academy Bonds and entered into a purchase contract in the amount of \$5,000,000 with Union Safe Deposit Bank, whereby the Bank agreed to finance the acquisition of certain improvements to the District's Stockton Center, Stagg, Edison and Franklin High Schools to modernize the business and automotive programs and sell the improvements to the District upon specified terms and conditions. Under the terms of the contract, the District has deposited \$2,729,105 with the Bank as collateral for the bonds, which the Bank will hold for the account of the District in the form of a certificate of deposit bearing interest at 4.119 percent per annum, compounded monthly, and payable on November 24, 2018. The certificate of deposit together with the interest earnings will be sufficient to repay the Bonds which mature on November 24, 2018.

Post-Employment Healthcare Benefits

In addition to the pension benefits described in Note 8, the District provides post-employment health care benefits to all employees who retire from the District on or after attaining age 55 with at least 10 years of service, in accordance with contracts between the District and employee groups. As of June 30, 2010, 333 retirees met these eligibility requirements. Benefits are provided for retirees age 55 to 65. The District pays up to \$1,095 per month for health benefits of retirees on a pay-as-you-go basis.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Post-Employment Healthcare Benefits (Continued)

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

| | |
|--|----------------------------|
| Annual required contribution | \$ 5,229,946 |
| Interest on net OPEB obligation | 373,792 |
| Adjustment to annual required contribution | <u>-</u> |
| Annual OPEB cost (expense) | 5,603,738 |
| Contributions made | <u>(4,969,929)</u> |
| Decrease in net OPEB obligation | 633,809 |
| Net OPEB obligation - beginning of year | <u>7,475,837</u> |
| Net OPEB obligation - end of year | <u><u>\$ 8,109,646</u></u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 was as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|---|--------------------------------|
| June 30, 2008 | \$ 3,012,861 | 171.3% | \$ 5,658,083 |
| June 30, 2009 | \$ 3,101,957 | 41.4% | \$ 7,475,837 |
| June 30, 2010 | \$ 5,603,738 | 88.7% | \$ 8,109,646 |

As of May 3, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$45.3 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$45.3. The covered payroll (annual payroll of active employees covered by the Plan) was \$189 million, and the ratio of the UAAL to the covered payroll was 24 percent.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Post-Retirement Healthcare Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 3, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 3 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was 28 years.

Public Agency Retirement Services (PARS)

During 2010, the District provided the option of a Supplemental Employee Retirement Plan to the District employees. As of June 30, 2010, there were 187 employees in the Plan. Employees under the SERP will receive monthly annuity benefits. The District is obligated to pay annual installments for the calculated benefits for employees under the SERP and for the administration of the plan.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Public Agency Retirement Services (PARS) (Continued)

The annual requirements to amortize the SERP liability outstanding as of June 30, 2010 are as follows:

| <u>Year Ending June 30,</u> | |
|---------------------------------|----------------------------|
| 2011 | \$ 1,831,789 |
| 2012 | 1,831,789 |
| 2013 | 1,831,789 |
| 2014 | <u>1,831,789</u> |
| | <u><u>\$ 7,327,156</u></u> |

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2010 is shown below:

| | <u>Balance July 1, 2009</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2010</u> | <u>Amounts Due Within One Year</u> |
|--|-------------------------------------|-----------------------------|-----------------------------|--------------------------------------|--|
| Governmental activities: | | | | | |
| General Obligation Bonds | \$ 250,966,000 | \$ 16,040,000 | \$ 5,130,000 | \$ 261,876,000 | \$ 6,120,000 |
| General Obligation Bonds Premium | 4,431,855 | | 207,604 | 4,224,251 | 207,604 |
| Bond Anticipation Notes | 21,955,000 | | | 21,955,000 | 21,955,000 |
| Bond Anticipation Notes Premium | 81,865 | | 51,703 | 30,162 | 30,162 |
| Certificates of Participation | 53,992,583 | | 1,456,268 | 52,536,315 | |
| Certificates of Participation Premium | 162,547 | | 6,096 | 156,451 | 6,096 |
| Capitalized lease obligations | 1,148,500 | | 382,477 | 766,023 | |
| California Energy Commission Loan | 600,565 | | 422,810 | 177,755 | 177,755 |
| Qualified Zone Academy Bonds | 6,635,000 | | | 6,635,000 | |
| Post-employment healthcare benefits | 7,475,837 | 5,603,738 | 4,969,929 | 8,109,646 | |
| PARS Liability | | 9,166,494 | 1,839,338 | 7,327,156 | 1,831,789 |
| Compensated absences | <u>3,517,336</u> | <u>714,927</u> | | <u>4,232,263</u> | <u>423,226</u> |
| | <u><u>\$ 350,967,088</u></u> | <u><u>\$ 31,525,159</u></u> | <u><u>\$ 14,466,225</u></u> | <u><u>\$ 368,026,022</u></u> | <u><u>\$ 30,751,632</u></u> |

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation and capitalized lease obligations are made from the General Fund, Capital Facilities Fund and Cafeteria Fund. Payments on the California Energy Commission Loan are made from the General Fund. Payments on post-employment benefits, PARS liability and compensated absences are made from the fund for which the related employee worked.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7. RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2010:

| | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> |
|--|------------------------------------|----------------------------|
| Restricted for revolving cash | \$ 72,500 | |
| Restricted for prepaid expenditures | 5,578,916 | |
| Restricted for stores inventory | 1,223,495 | |
| Restricted for unspent categorical program revenues | 14,404,933 | |
| Restricted for special revenues | 11,130,036 | |
| Restricted for debt service | 13,499,621 | |
| Restricted for capital projects | 13,163,188 | |
| Restricted for self insurance | 974,767 | |
| Restricted for scholarships | <u> </u> | <u>\$ 868,873</u> |
| Total restricted net assets | <u><u>\$ 60,047,456</u></u> | <u><u>\$ 868,873</u></u> |

8. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2009 and 2010 were \$4,508,640, \$4,878,439 and \$4,600,188, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2009-2010 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2008, 2009 and 2010 were \$12,957,852, \$13,334,117 and \$12,502,994, respectively, and equal 100% of the required contributions for each year.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9. JOINT POWERS AGREEMENTS

The District participates in two joint ventures under joint powers agreements.

Northern California Regional Liability Excess Fund

The District is a member with other districts in San Joaquin County and the San Joaquin County Office of Education in Northern California Regional Liability Excess Fund (NCRReLiEF) for the operation of a common risk management and insurance program. NCRReLiEF is governed by a board consisting of representatives of member districts. The board controls the operations of NCRReLiEF, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board.

Condensed audited financial information for NCRReLiEF for the year ended June 30, 2010 is as follows:

| | |
|----------------------|---------------|
| Total assets | \$ 53,768,412 |
| Total liabilities | \$ 33,726,756 |
| Total net assets | \$ 20,041,656 |
| Total revenues | \$ 37,856,693 |
| Total expenditures | \$ 29,885,518 |
| Change in net assets | \$ 7,971,175 |

School Project for Utility Rate Reduction

The District is also a member in School Project for Utility Rate Reduction (SPURR), which is a California joint powers authority, whose members are California public K-12 school districts, community college districts and county offices of education. SPURR provides members access to the wholesale natural gas market that would otherwise be unavailable to them.

Condensed audit information for SPURR for the year ended June 30, 2009 (the latest information available) is as follows:

| | |
|----------------------|---------------|
| Total assets | \$ 18,870,053 |
| Total liabilities | \$ 12,884,337 |
| Total revenue | \$ 49,708,518 |
| Total expenditures | \$ 48,435,784 |
| Change in net assets | \$ 1,272,734 |
| Net assets | \$ 5,985,716 |

10. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10. CONTINGENCIES (Continued)

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements of future revenue offsets subsequently determined will not have a material effect on the District's financial position.

On April 27, 2009, the District issued \$10,240,000 of Tax and Revenue Anticipation Notes (TRANs) maturing on December 30, 2010, with an interest rate of 2.50%, to provide for anticipated cash flow deficits from operations. The TRANs are a general obligation of the District and are payable from revenues and cash receipts generated by the District during the fiscal year ended June 30, 2010. As of June 30, 2010, the District is fully utilizing the cash from the TRANs and has recorded a liability of \$10,240,000 in the basic financial statements.

11. SUBSEQUENT EVENTS

General Obligation Bonds

On July 22, 2010, the District issued General Obligation Bonds, Election 2008, Series C, totaling \$14,930,000. The notes bear an interest rate ranging from 5.170% to 7.080% and are scheduled to mature through August 2027. The Series C Bonds were authorized at an election of the registered voters of the District held on February 5, 2008, which authorized a total of \$464,500,000 principal amount of general obligation bonds to finance new construction and additions to and modernization of school facilities for the District. The Series C are the third series issued pursuant to such authorization.

Subsequent Events

The District has reviewed all events occurring from June 30, 2010 through December 7, 2010, the date the financial statements were issued. No subsequent events occurred requiring accrual or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2010

| | <u>Budget</u> | | | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------|---------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Revenue limit sources: | | | | |
| State apportionment | \$ 146,852,132 | \$ 138,717,979 | \$ 140,393,160 | \$ 1,675,181 |
| Local sources | <u>33,850,349</u> | <u>32,631,661</u> | <u>33,121,342</u> | <u>489,681</u> |
| Total revenue limit | <u>180,702,481</u> | <u>171,349,640</u> | <u>173,514,502</u> | <u>2,164,862</u> |
| Federal sources | 62,914,584 | 63,517,886 | 43,191,530 | (20,326,356) |
| Other state sources | 80,549,402 | 82,017,689 | 89,646,091 | 7,628,402 |
| Other local sources | <u>4,478,956</u> | <u>7,516,034</u> | <u>5,333,206</u> | <u>(2,182,828)</u> |
| Total revenues | <u>328,645,423</u> | <u>324,401,249</u> | <u>311,685,329</u> | <u>(12,715,920)</u> |
| Expenditures: | | | | |
| Certificated salaries | 150,486,594 | 161,256,916 | 150,697,880 | 10,559,036 |
| Classified salaries | 42,987,072 | 47,483,320 | 46,632,063 | 851,257 |
| Employee benefits | 67,363,989 | 78,592,954 | 73,230,204 | 5,362,750 |
| Books and supplies | 40,547,599 | 38,612,790 | 16,812,374 | 21,800,416 |
| Contract services and operating expenditures | 32,412,802 | 39,694,447 | 35,416,360 | 4,278,087 |
| Capital outlay | 30,484 | 62,599 | 39,134 | 23,465 |
| Other outgo | 37,941 | 175,841 | 332,736 | (156,895) |
| Debt service: | | | | |
| Principal retirement | 714,082 | 714,082 | 500,185 | 213,897 |
| Interest | <u>25,970</u> | <u>25,970</u> | <u>25,897</u> | <u>73</u> |
| Total expenditures | <u>334,606,533</u> | <u>366,618,919</u> | <u>323,686,833</u> | <u>42,932,086</u> |
| Deficiency of revenues under expenditures | <u>(5,961,110)</u> | <u>(42,217,670)</u> | <u>(12,001,504)</u> | <u>30,216,166</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 156,158 | 149,021 | 2,759,446 | 2,610,425 |
| Operating transfers out | <u>(78,970)</u> | <u>(380,510)</u> | <u>(623,126)</u> | <u>(242,616)</u> |
| Total other financing sources (uses) | <u>77,188</u> | <u>(231,489)</u> | <u>2,136,320</u> | <u>2,367,809</u> |
| Change in fund balance | (5,883,922) | (42,449,159) | (9,865,184) | 32,583,975 |
| Fund balance, July 1, 2009 | <u>49,347,662</u> | <u>49,347,662</u> | <u>49,347,662</u> | |
| Fund balance, June 30, 2010 | <u>\$ 43,463,740</u> | <u>\$ 6,898,503</u> | <u>\$ 39,482,478</u> | <u>\$ 32,583,975</u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS**

For the Year Ended June 30, 2010

| Schedule of Funding Progress | | | | | | | |
|-------------------------------------|---|--|--|--|-------------------------|----------------------------|--|
| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
| 6/30/2008 | November 7, 2007 | \$ 5.2 million | \$46.9 million | \$41.7 million | 11% | \$210 million | 19.9% |
| 6/30/2009 | June 1, 2009 | \$ - | \$23.3 million | \$23.3 million | 0% | \$211 million | 11% |
| 6/30/2010 | May 3, 2010 | \$ - | \$45.3 million | \$45.3 million | 0% | \$189 million | 24% |

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

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2010

| | <u>Charter School Fund (09)</u> | <u>Adult Education Fund (11)</u> | <u>Child Develop- ment Fund (12)</u> | <u>Cafeteria Fund (13)</u> | <u>Deferred Mainten- ance Fund (14)</u> | <u>County School Facilities Fund (35)</u> | <u>Mello- Roos Fund (49)</u> | <u>Bond Interest and Redemption Fund (51)</u> | <u>Tax Override Fund (53)</u> | <u>Debt Service Fund (56)</u> | <u>Total</u> |
|--|---|--|--|--------------------------------|---|---|--------------------------------------|---|---------------------------------------|---------------------------------------|----------------------|
| ASSETS | | | | | | | | | | | |
| Cash in County Treasury | \$ 40,474 | \$ 2,795,963 | \$ 1,504,677 | \$ 7,150,558 | \$ 856,623 | \$ 22,819 | \$ 1,508 | \$ 13,486,482 | \$ 13,040 | | \$ 25,872,144 |
| Cash awaiting deposit | | 2,000 | | 503 | | | | | | | 2,503 |
| Cash in revolving fund | | | | 2,500 | | | | | | | 2,500 |
| Cash with Fiscal Agent | | | | | | | | | | \$ 4,930,588 | 4,930,588 |
| Accounts receivable | 543,554 | 482,684 | 535,336 | 176,189 | 1,607 | 2,064 | 2 | | 18 | 81 | 1,741,535 |
| Prepaid expenditures | | | | 1,080 | | | | | | | 1,080 |
| Store inventory | | | | 299,339 | | | | | | | 299,339 |
| Due from other funds | <u>242,199</u> | <u>26,842</u> | <u>276,093</u> | <u>99,360</u> | | | | | | | <u>644,494</u> |
| Total assets | <u>\$ 826,227</u> | <u>\$ 3,307,489</u> | <u>\$ 2,316,106</u> | <u>\$ 7,729,529</u> | <u>\$ 858,230</u> | <u>\$ 24,883</u> | <u>\$ 1,510</u> | <u>\$ 13,486,482</u> | <u>\$ 13,058</u> | <u>\$ 4,930,669</u> | <u>\$ 33,494,183</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | |
| Accounts payable | \$ 536,380 | \$ 34,000 | \$ 84,787 | \$ 212,785 | \$ 71,660 | | | | | | \$ 939,612 |
| Deferred revenue | | | 988 | | | | | | | | 988 |
| Due to other funds | <u>276,595</u> | <u>2,164,690</u> | <u>150,204</u> | <u>72,537</u> | | | | | | | <u>2,664,026</u> |
| Total liabilities | 812,975 | 2,198,690 | 235,979 | 285,322 | 71,660 | | | | | | 3,604,626 |
| Fund balances | <u>13,252</u> | <u>1,108,799</u> | <u>2,080,127</u> | <u>7,444,207</u> | <u>786,570</u> | <u>\$ 24,883</u> | <u>\$ 1,510</u> | <u>\$ 13,486,482</u> | <u>\$ 13,058</u> | <u>\$ 4,930,669</u> | <u>29,889,557</u> |
| Total liabilities and fund balances | <u>\$ 826,227</u> | <u>\$ 3,307,489</u> | <u>\$ 2,316,106</u> | <u>\$ 7,729,529</u> | <u>\$ 858,230</u> | <u>\$ 24,883</u> | <u>\$ 1,510</u> | <u>\$ 13,486,482</u> | <u>\$ 13,058</u> | <u>\$ 4,930,669</u> | <u>\$ 33,494,183</u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2010

| | <u>Charter School Fund (09)</u> | <u>Adult Education Fund (11)</u> | <u>Child Develop- ment Fund (12)</u> | <u>Cafeteria Fund (13)</u> | <u>Deferred Mainten- ance Fund (14)</u> | <u>County School Facilities Fund (35)</u> | <u>Mello- Roos Fund (49)</u> | <u>Bond Interest and Redemption Fund (51)</u> | <u>Tax Override Fund (53)</u> | <u>Debt Service Fund (56)</u> | <u>Total</u> |
|---|---|--|--|--------------------------------|---|---|--------------------------------------|---|---------------------------------------|---------------------------------------|----------------------|
| Revenues: | | | | | | | | | | | |
| Revenue limit sources: | | | | | | | | | | | |
| State apportionment | \$ 2,764,519 | | | | | | | | | | \$ 2,764,519 |
| Federal sources | 450,000 | \$ 717,828 | \$ 14,086 | \$ 14,743,578 | | | | | | | 15,925,492 |
| Other state sources | 442,961 | 45,727 | 6,550,969 | 1,399,525 | | \$ 6,903,894 | | \$ 203,682 | | | 15,546,758 |
| Other local sources | <u>539</u> | <u>24,545</u> | <u>7,148</u> | <u>867,266</u> | <u>\$ 8,005</u> | <u>7,918</u> | <u>\$ 9,608</u> | <u>15,390,496</u> | <u>\$ 83</u> | <u>\$ 228,188</u> | <u>16,543,796</u> |
| Total revenues | <u>3,658,019</u> | <u>788,100</u> | <u>6,572,203</u> | <u>17,010,369</u> | <u>8,005</u> | <u>6,911,812</u> | <u>9,608</u> | <u>15,594,178</u> | <u>83</u> | <u>228,188</u> | <u>50,780,565</u> |
| Expenditures: | | | | | | | | | | | |
| Certificated salaries | 2,017,630 | 408,554 | 1,371,439 | | | | | | | | 3,797,623 |
| Classified salaries | 295,870 | 95,309 | 995,742 | 4,941,122 | | | | | | | 6,328,043 |
| Employee benefits | 798,501 | 118,783 | 1,053,685 | 2,952,744 | | | | | | | 4,923,713 |
| Books and supplies | 545,143 | 80,514 | 196,249 | 5,712,413 | | | | | | | 6,534,319 |
| Contract services and operating expenditures | 566,838 | 138,750 | 103,099 | 302,915 | 104,710 | | | | | | 1,216,312 |
| Capital outlay | 43,911 | 648,045 | 73,935 | | 374,160 | | | | | | 1,140,051 |
| Debt service: | | | | | | | | | | | |
| Principal retirement | | | | 305,102 | | | 856,355 | 5,130,000 | | | 6,291,457 |
| Interest | | | | <u>36,910</u> | | | <u>1,306,157</u> | <u>11,535,405</u> | | | <u>12,878,472</u> |
| Total expenditures | <u>4,267,893</u> | <u>1,489,955</u> | <u>3,794,149</u> | <u>14,251,206</u> | <u>478,870</u> | | <u>2,162,512</u> | <u>16,665,405</u> | | | <u>43,109,990</u> |
| (Deficiency) excess of revenues (under) over expenditures | <u>(609,874)</u> | <u>(701,855)</u> | <u>2,778,054</u> | <u>2,759,163</u> | <u>(470,865)</u> | <u>6,911,812</u> | <u>(2,152,904)</u> | <u>(1,071,227)</u> | <u>83</u> | <u>228,188</u> | <u>7,670,575</u> |
| Other financing sources (uses): | | | | | | | | | | | |
| Operating transfers in | 623,126 | | | | | | | 336,640 | | | 959,766 |
| Operating transfers out | | <u>(2,033,313)</u> | <u>(140,740)</u> | <u>(518,479)</u> | | <u>(6,903,894)</u> | | | | <u>(66,914)</u> | <u>(9,663,340)</u> |
| Total other financing sources (uses) | <u>623,126</u> | <u>(2,033,313)</u> | <u>(140,740)</u> | <u>(518,479)</u> | | <u>(6,903,894)</u> | | <u>336,640</u> | | <u>(66,914)</u> | <u>(8,703,574)</u> |
| Net change in fund balances | 13,252 | (2,735,168) | 2,637,314 | 2,240,684 | (470,865) | 7,918 | (2,152,904) | (734,587) | 83 | 161,274 | (1,032,999) |
| Fund balances, July 1, 2009 | | <u>3,843,967</u> | <u>(557,187)</u> | <u>5,203,523</u> | <u>1,257,435</u> | <u>16,965</u> | <u>2,154,414</u> | <u>14,221,069</u> | <u>12,975</u> | <u>4,769,395</u> | <u>30,922,556</u> |
| Fund balances, June 30, 2010 | <u>\$ 13,252</u> | <u>\$ 1,108,799</u> | <u>\$ 2,080,127</u> | <u>\$ 7,444,207</u> | <u>\$ 786,570</u> | <u>\$ 24,883</u> | <u>\$ 1,510</u> | <u>\$ 13,486,482</u> | <u>\$ 13,058</u> | <u>\$ 4,930,669</u> | <u>\$ 29,889,557</u> |

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

STOCKTON UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2010

Stockton Unified School District was established on July 1, 1936. The District operates 42 elementary schools, 1 intermediate alternative school and 9 high schools, including Weber Institute of Technology, Institute of Business, Management and Law, Stockton Early College Academy, and Stockton Alternative High School. The district also maintains an adult education school, a special education school, a continuation high school, an independent study program and a child development program. There were no changes in District boundaries during the year.

GOVERNING BOARD

| <u>Name</u> | <u>Office</u> | <u>Term Expires</u> |
|------------------------|----------------------|----------------------------|
| Beverly Fitch McCarthy | President | 2010 |
| Colleen Boardman | Vice President | 2012 |
| Steve Smith | Member | 2010 |
| Jose A. Morales | Member | 2012 |
| Gloria Allen | Member | 2012 |
| William (Bill) Ross | Member | 2010 |
| Sal Ramirez | Member | 2010 |

ADMINISTRATION

Carl Toliver
Superintendent

Robert Thompson
Interim Assistant Superintendent, Human Resources

Jason Willis
Chief Financial Officer

Wayne Martin
Executive Director, Business Services

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2010

| | Second Period Report (Revised) | Annual Report |
|---|---|--------------------------|
| DISTRICT | | |
| Elementary: | | |
| Kindergarten | 2,928 | 2,945 |
| First through Third | 8,535 | 8,542 |
| Fourth through Eighth | 12,995 | 13,000 |
| Home and Hospital | 4 | 4 |
| Special Education | <u>814</u> | <u>819</u> |
| Total Elementary | <u>25,276</u> | <u>25,310</u> |
| Secondary: | | |
| Regular Classes | 8,208 | 8,116 |
| Special Education | 451 | 450 |
| Compulsory Continuation Education | 223 | 221 |
| Home and Hospital | 16 | 16 |
| Opportunity School | <u>32</u> | <u>31</u> |
| Total Secondary | <u>8,930</u> | <u>8,834</u> |
| | <u><u>34,206</u></u> | <u><u>34,144</u></u> |
| CHARTER SCHOOL - CLASSROOM BASED | | |
| Elementary: | | |
| Kindergarten | 73 | 72 |
| First through Third | 206 | 201 |
| Fourth through Eighth | <u>371</u> | <u>366</u> |
| | <u>650</u> | <u>639</u> |
| Secondary: | | |
| Regular classes | <u>478</u> | <u>476</u> |
| Total Classroom Based | <u><u>1,128</u></u> | <u><u>1,115</u></u> |

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
(Continued)
For the Year Ended June 30, 2010

| | <u>Second Period Report (Revised)</u> | <u>Annual Report</u> |
|---|--|---------------------------------|
| CHARTER SCHOOL - NON-CLASSROOM BASED | | |
| Elementary: | | |
| Kindergarten | 18 | 18 |
| First through Third | 62 | 63 |
| Fourth through Eighth | <u>155</u> | <u>158</u> |
| | <u>235</u> | <u>239</u> |
| Secondary: | | |
| Regular classes | <u>137</u> | <u>165</u> |
| Total Non-classroom Based | <u><u>372</u></u> | <u><u>404</u></u> |

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2010

| <u>Grade Level</u> | <u>1986-87 Minutes Require- ment</u> | <u>1982-83 Actual Minutes</u> | <u>2009-10 Actual Minutes</u> | <u>Number of Days Traditional Calendar</u> | <u>Status</u> |
|--------------------|--|---------------------------------------|---------------------------------------|--|-------------------|
| DISTRICT | | | | | |
| Kindergarten | 36,000 | 31,500 | 36,000 | 180 | In Compliance |
| Grade 1 | 50,400 | 50,250 | 54,000 | 180 | In Compliance |
| Grade 2 | 50,400 | 50,250 | 54,000 | 180 | In Compliance |
| Grade 3 | 50,400 | 50,250 | 54,000 | 180 | In Compliance |
| Grade 4 | 54,000 | 53,850 | 54,000 | 180 | In Compliance |
| Grade 5 | 54,000 | 53,850 | 54,000 | 180 | In Compliance |
| Grade 6 | 54,000 | 53,850 | 54,000 | 180 | In Compliance |
| Grade 7 | 54,000 | 58,500 | 56,700 | 180 | In Compliance (1) |
| Grade 8 | 54,000 | 58,500 | 56,700 | 180 | In Compliance (1) |
| Grade 9 | 64,800 | 64,980 | 64,980 | 180 | In Compliance |
| Grade 10 | 64,800 | 64,980 | 64,980 | 180 | In Compliance |
| Grade 11 | 64,800 | 64,980 | 64,980 | 180 | In Compliance |
| Grade 12 | 64,800 | 64,980 | 64,980 | 180 | In Compliance |

(1) The District offers K-8 education, therefore, the actual number of minutes was reduced in the current year. The District is utilizing the weighted average method of calculating instructional minutes for seventh and eighth grades. Using the weighted average methodology, the District is in compliance with the instructional minutes requirements.

CHARTER SCHOOL

| | | | | | |
|----------|--------|-----|--------|-----|---------------|
| Grade 9 | 64,800 | N/A | 65,004 | 180 | In Compliance |
| Grade 10 | 64,800 | N/A | 65,004 | 180 | In Compliance |
| Grade 11 | 64,800 | N/A | 65,004 | 180 | In Compliance |
| Grade 12 | 64,800 | N/A | 65,004 | 180 | In Compliance |

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Year Ended June 30, 2010

| Federal Catalog Number | Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Pass- Through Entity Identifying Number | Federal Expend- itures |
|---|---|--|---------------------------------------|
| <u>U.S. Department of Education - Passed through California Department of Education</u> | | | |
| | Special Education Cluster: | | |
| 84.027 | Special Education IDEA: Basic and Local Assistance Entitlement, Part B, Sec 611 | 13379 | \$ 6,570,585 |
| 84.173 | Special Education Preschool Grants | 13430 | 191,537 |
| 84.027a | Special Education IDEA: Preschool Local Entitlement, Part B, Sec 611 (Age 3-5) | 13682 | 378,176 |
| 84.173A | Special Education IDEA Preschool Staff Development, Part B, Sec 619 | 13431 | 1,736 |
| 84.391 | ARRA: Special Education, IDEA Part B, Sec 611, Basic Local Assistance | 15003 | 5,285,773 |
| 84.392 | ARRA: Special Education, IDEA Preschool, Part B Sec 619 | 15000 | <u>78,211</u> |
| | Subtotal Special Education Cluster | | <u>12,506,018</u> |
| | Title I Cluster: | | |
| 84.010 | NCLB: Title I, Part A, Basic Grants Low Income | 14039 | 15,215,902 |
| 84.010 | NCLB: Title I, Part A, Program Improvement LEA Corrective Action, Extensive Performance Problems | 14955 | 210,954 |
| 84.389 | ARRA: Title I, Part A, School Improvement | 15005 | 1,151,804 |
| 84.389 | ARRA: Title I, Part A, Basic Grants Low Income | 15005 | 5,540,142 |
| 84.389 | ARRA: Title I, Part D, Local Delinquent Programs | 15009 | <u>20,493</u> |
| | Subtotal Title I Cluster | | <u>22,139,295</u> |
| 84.002 | Adult Education: Adult Basic Education & ESL | 14109 | 335,545 |
| 84.002 | Adult Education Priority 5 Adult Secondary Education | 13978 | 85,317 |
| 84.002a | Adult Education English Literacy and Citizenship | 14109 | 296,966 |
| 84.181 | Special Education IDEA Early Intervention | 23761 | 67,389 |
| 84.033B | International Baccalaureate | 25075 | 45,533 |
| 84.350A | Transition to Teaching Program | - | 137,688 |
| 84.215 | Smaller Learning Communities | - | 569,197 |
| 84.196 | Title X McKinney Vento Homeless Assistance | 14332 | 65,696 |
| 84.060 | Indian Education | 10011 | 395,417 |
| 84.367 | NCLB: Title II Part A Improving Teacher Quality | 14341 | 2,563,331 |
| 84.365 | NCLB: Title III Immigrant Education Program | 14346 | 4,548 |
| 84.365 | NCLB Title III Limited English Proficiency | 10084 | 172,632 |
| 84.318 | Title II Part D Enhancing Education through Technology | 14334 | 181,324 |
| 84.048 | Vocational Education - Carl Perkins | 13924 | 349,141 |
| 84.186 | Title IV Safe and Drug Free Schools | 14347 | 137,208 |
| 82.287 | Twenty First Century Learning Centers | 14349 | 1,060,905 |
| 84.282 | NCLB: Title V, Part B, Public Charter School Grants | 14531 | 450,000 |

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2010

| Federal Catalog Number | Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Pass- Through Entity Identifying Number | Federal Expend- itures |
|---|--|--|---------------------------------------|
| <u>U.S. Department of Education - Passed through California Department of Education (Continued)</u> | | | |
| 84.387 | ARRA: Title X McKinney Vento Homeless Assistance | 15007 | \$ 5,289 |
| 84.394 | ARRA: State Fiscal Stabilization Funds | 25008 | <u>7,733,013</u> |
| | Total U.S. Department of Education | | <u>49,301,452</u> |
| <u>U.S. Department of Health and Human Services - Passed through California Department of Education</u> | | | |
| 93.575 | Child Development: Quality Improvement | 13979 | 1,779 |
| 93.575 | Child Development: Program for Infant/Toddler Caregiver | 13942 | 3,832 |
| 93.778 | Medical assistance Program | 10013 | <u>147,736</u> |
| | Total U.S. Department of Health and Human Services | | <u>153,347</u> |
| <u>U.S. Department of Agriculture - Passed through California Department of Education</u> | | | |
| 10.579 | ARRA: Equipment Assistance Grants | 15006 | 78,187 |
| 10.555 | National School Lunch Program | 13396 | <u>14,204,903</u> |
| | Total U.S. Department of Agriculture | | <u>14,283,090</u> |
| <u>U.S. Department of Justice</u> | | | |
| 16.579 | Gang Prevention | - | 46,616 |
| <u>U.S. Department of Defense</u> | | | |
| 12.357 | ROTC Federal Funding | - | <u>67,810</u> |
| | Total Federal Programs | | <u>\$ 63,852,315</u> |

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2009

There were no adjustments made to any funds of the District.

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2010

| | (Budget) <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|-------------------------|-----------------------|-----------------------|-----------------------|
| <u>General Fund</u> | | | | |
| Revenues and other financing sources | \$ 285,542,252 | \$ 314,444,775 | \$ 340,353,024 | \$ 342,971,332 |
| Expenditures | 307,017,305 | 323,686,833 | 338,220,898 | 342,904,591 |
| Other uses and transfers out | <u>315,383</u> | <u>623,126</u> | <u>635,020</u> | <u>1,729,693</u> |
| Total outgo | <u>307,332,688</u> | <u>324,309,959</u> | <u>338,855,918</u> | <u>344,634,284</u> |
| Change in fund balance | <u>\$ (21,790,436)</u> | <u>\$ (9,865,184)</u> | <u>\$ 1,497,106</u> | <u>\$ (1,662,952)</u> |
| Ending fund balance | <u>\$ 17,692,042</u> | <u>\$ 39,482,478</u> | <u>\$ 49,347,662</u> | <u>\$ 47,850,556</u> |
| Available reserves | <u>\$ 10,818,048</u> | <u>\$ 7,273,085</u> | <u>\$ 10,246,289</u> | <u>\$ 21,019,340</u> |
| Designated for economic uncertainties | <u>\$ 6,143,674</u> | <u>\$ 6,472,430</u> | <u>\$ 6,716,777</u> | <u>\$ 6,876,337</u> |
| Undesignated fund balance | <u>\$ 4,674,374</u> | <u>\$ 800,655</u> | <u>\$ 3,529,512</u> | <u>\$ 14,143,003</u> |
| Available reserves as percentages of total outgo | <u>3.52%</u> | <u>2.24%</u> | <u>3.00%</u> | <u>6.10%</u> |
| <u>All Funds</u> | | | | |
| Total long-term liabilities | <u>\$ 337,274,390</u> | <u>\$ 368,026,022</u> | <u>\$ 350,967,088</u> | <u>\$ 339,179,892</u> |
| Average daily attendance at P-2, excluding Adult and Charter School | <u>33,282</u> | <u>34,206</u> | <u>34,468</u> | <u>34,764</u> |

The General Fund fund balance has decreased by \$10,031,030 over the past three years. The District has incurred operating deficits in two the past three years, and anticipates incurring an operating deficit during the 2010-2011 fiscal year. The fiscal year 2010-2011 budget projects a decrease of \$21,790,436. For a district this size, the state recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2010, the District has met this requirement.

Total long-term liabilities have increased by \$28,846,130 over the past two years, due primarily to the issuance of General Obligation Bonds, Bond Anticipation Notes and increases in the OPEB liability.

Average daily attendance has decreased by 558 over the past two years. The District anticipates a decrease of 924 ADA for the 2010-2011 fiscal year.

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2010

| <u>Charter Schools Chartered by District</u> | <u>Included in District Financial Statements, or Separate Report</u> |
|---|---|
| Institute of Business, Management and Law | Included in Charter Fund |
| Stockton Alternative High School | Included in Charter Fund |
| Stockton Early College Academy | Included in Charter Fund |
| Dr. Lewis Dolphin Stallworth Sr. Charter Schools | Separate Report |
| Aspire Langston Hughes Academy | Separate Report |
| Aspire Rosa Parks Academy | Separate Report |
| California Virtual Academy at San Joaquin | Separate Report |

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - 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.

B - 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.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133 requirements, and was prepared on the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010.

| <u>Description</u> | <u>CFDA Number</u> | <u>Amount</u> |
|---|------------------------|----------------------|
| Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances | | \$ 59,117,022 |
| Add: State Fiscal Stabilization Funds spent from prior year awards | 84.394 | 5,380,361 |
| International Baccalaureate Funds spent from prior year awards | 84.033B | 13,811 |
| Less: NSLP Funds received in excess of excess of expenditures | 10.555 | (466,741) |
| NSLP Funds received in excess of expenditures | 10.558 | (2,222) |
| Medi-Cal Billing Funds not spent | 93.778 | <u>(189,916)</u> |
| Total Schedule of Expenditure of Federal Awards | | <u>\$ 63,852,315</u> |

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

1. PURPOSE OF SCHEDULES (Continued)

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2010-2011 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2010, the District did not adopt this program.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Education
Stockton Unified School District
Stockton, California

We have audited the compliance of Stockton Unified School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2010. Compliance with the requirements of state laws and regulations is the responsibility of Stockton Unified School District's management. Our responsibility is to express an opinion on Stockton Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Stockton Unified School District's compliance with those requirements.

| <u>Description</u> | <u>Audit Guide Procedures</u> | <u>Procedures Performed</u> |
|--|-----------------------------------|---------------------------------|
| Regular and Special Day Classes | 8 | Yes |
| Kindergarten Continuance | 3 | Yes |
| Independent Study | 23 | No, see below |
| Continuation Education | 10 | Yes |
| Instructional Time: | | |
| School Districts | 6 | Yes |
| County Offices of Education | 3 | No, see below |
| Instructional Materials: | | |
| General requirements | 8 | Yes |
| Ratio of Administrative Employees to Teachers | 1 | Yes |
| Classroom Teacher Salaries | 1 | Yes |
| Early Retirement Incentive Program | 4 | No, see below |
| Gann Limit Calculation | 1 | Yes |
| School Accountability Report Card | 3 | No, see below |
| Public Hearing Requirements - Receipt of Funds | 1 | Yes |
| Class Size Reduction Program: | | |
| General requirements | 7 | Yes |
| Option one classes | 3 | Yes |
| Option two classes | 4 | No, see below |
| Districts with only one school serving K-3 | 4 | No, see below |
| After School Education and Safety Program: | | |
| General requirements | 4 | Yes |
| After school | 4 | Yes |
| Before school | 5 | No, see below |

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

| <u>Description</u> | <u>Audit Guide Procedures</u> | <u>Procedures Performed</u> |
|---|-----------------------------------|---------------------------------|
| Contemporaneous Records of Attendance, for charter schools | 1 | Yes |
| Mode of Instruction, for charter schools | 1 | Yes |
| Nonclassroom-Based Instruction/Independent Study, for charter schools | 15 | Yes |
| Determination of Funding for Nonclassroom-Based Instruction, for charter schools | 3 | Yes |
| Annual Instructional Minutes - Classroom-Based, for charter schools | 3 | Yes |

We did not perform procedures related to Independent Study because the District's reported ADA was below the materiality level that requires testing.

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office of Education.

We did not perform any procedures related to Early Retirement Incentive Program because the District did not offer this program in the current year.

The 2009-2010 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2010. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2009-2010 Audit Guide relating to the comparison of tested data from the 2009-2010 fiscal year to the 2009-2010 School Accountability Report Cards.

We did not perform any procedures related to Class Size Reduction Program - Option Two classes and Districts with only one school serving K-3 because the District does not offer Option Two, and the District has more than one school serving K-3.

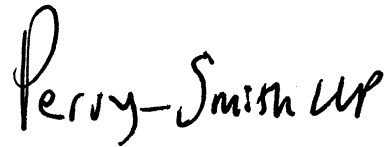
We did not perform any procedures related to After School Education and Safety Program - Before School because the District does not operate a before school program.

In our opinion, Stockton Unified School District complied with the state laws and regulations referred to above for the year ended June 30, 2010, except as described in the Schedule of Audit Findings and Questioned Costs section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Stockton Unified School District had not complied with the state laws and regulations.

Stockton Unified School District's responses to the findings identified in our audit are included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's responses and, accordingly, express no opinion on them.

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS
(Continued)

This report is intended solely for the information of the Board of Education, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Perry-Smith" followed by a stylized flourish.

Sacramento, California
December 7, 2010

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Stockton Unified School District
Stockton, California

We have audited the financial statements of Stockton Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stockton Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stockton Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Stockton Unified School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stockton Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Stockton Unified School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

(Continued)

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith LLP

Sacramento, California
December 7, 2010

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education
Stockton Unified School District
Stockton, California

Compliance

We have audited the compliance of Stockton Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Stockton Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Stockton Unified School District's management. Our responsibility is to express an opinion on Stockton Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Stockton Unified School District's compliance with those requirements.

In our opinion, Stockton Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Stockton Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stockton Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Stockton Unified School District's internal control over compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry Smith LLP

Sacramento, California
December 7, 2010

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|----------------------------------|---|
| 84.010, 84.389 | NCLB: Title I Cluster |
| 84.027, 84.027A, 84.173, 84.173A | |
| 84.391, 84.392 | Special Education, Cluster |
| 84.287 | Twenty First Century Learning Centers |
| 84.367 | NCLB: Title II Part A Improving Teacher Quality |
| 84.394 | ARRA State Fiscal Stabilization Funds |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,915,569

Auditee qualified as low-risk auditee? X Yes _____ No

STATE AWARDS

Internal control over state programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses? _____ Yes X None reported

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

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

1. INTERNAL CONTROLS - STUDENT BODY (30000)

Criteria

Internal Controls - Safeguarding of Assets

Conditions

At various school sites selected for testing of the Associated Student Body financial activity, we noted the following:

- Deposits are not performed on a timely basis.
- Documentation is not maintained to reconcile individual cash receipt transactions to deposit batch.
- No cash receipts are issued or recorded when money is received.
- Money is maintained by teachers instead of being turned in to ASB Advisor immediately after an event.
- No tally sheet was used which details the number of items sold and unit price per item.
- A ledger to record cash receipts as they are received was not used.
- No log was maintained for the issuance of sub-receipt books to the student clubs.
- The financial reports for club activity are not distributed on a monthly basis; they are distributed semi-annually. In addition, there is no evidence of the Principal's review.
- An ASB account was briefly overdrawn to a credit balance.

Effect

ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

No determinable.

Recommendation

- District should enforce a policy to have deposits made on a timely basis (at least bi-weekly).
- Schedules should be used and maintained to reconcile individual cash receipts to deposit slips.
- Receipts should be issued to issued immediately upon exchange of cash.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

1. INTERNAL CONTROLS - STUDENT BODY (30000) (Continued)

Recommendation (Continued)

- All cash from activities should be turned in to the ASB Advisor in a timely manner.
- Detailed schedules to show the unit price per items and number of items sold should accompany each cash receipt transaction.
- All sites with ASB activity should maintain a ledger to record cash receipts.
- Receipt books used by clubs should be tracked using a receipt book log.
- Financial Activity reports should be prepared, distributed and reviewed on a monthly basis.
- ASB balance should be continuously reviewed to ensure there is adequate funds before a disbursement is made.

Corrective Action Plan

The District's internal audit staff will review the conditions and recommendations with the applicable sites. Follow-up visits will be made to determine that the recommendations have been implemented.

Training will be provided to all sites to remind them of stated District procedures pertaining to cash handling and maintaining adequate support for funds collected.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2. STATE COMPLIANCE - NONCLASSROOM BASED INSTRUCTION FOR CHARTER SCHOOLS (10000)

Criteria

51747. A school district or county office of education shall not be eligible to receive apportionments for independent study by pupils, regardless of age, unless it has adopted written policies, and has implemented those policies, pursuant to rules and regulations adopted by the Superintendent of Public Instruction, that include, but are not limited to, all of the following:

(c) A requirement that a current written agreement for each independent study pupil shall be maintained on file including, but not limited to, all of the following:

(5) The duration of the independent study agreement, including the beginning and ending dates for the pupil's participation in independent study under the agreement. No independent study agreement shall be valid for any period longer than one semester, or one-half year for a school on a year-round calendar.

(6) A statement of the number of course credits or, for the elementary grades, other measures of academic accomplishment appropriate to the agreement, to be earned by the pupil upon completion.

(8) 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. For purposes of this paragraph "caregiver" means a person who has met the requirements of Part 1.5 (commencing with Section 6550) of the Family Code.

Conditions

For the Nonclassroom Based Instruction testing at Stockton Alternative High School we noted the following conditions:

- Contracts were not signed by the student and parent/guardian until after the entry date.
- Contracts were for the entire school year and not for each semester.
- Contracts did not include all the required data elements, which include the number of course credits to be earned upon completion.

Effect

ADA is overstated by 108.13 ADA; District is not in compliance with State requirements for the year ending June 30, 2010.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

(Continued)

2. **STATE COMPLIANCE - NONCLASSROOM BASED INSTRUCTION FOR CHARTER SCHOOLS (10000)** (Continued)

Cause

The site changed from a Continuation High School to an Independent High School in September 2009. At the point of the change, the site had the students' sign the independent study contracts and the site went back in the attendance system and changed the attendance to be independent study attendance from the first day of class on July 29, 2009.

Additionally, the school is not on a semester schedule. The students take one class at a time and complete it at their own pace. When they complete the class they are allowed to enroll in a new class. However, we noted the Independent Study agreements were for the entire school year and not for individual classes.

When the agreements were initially completed the counselor would indicate the first class the student would be taking and as the student completed that class and started a new one the secretary would update the contract with the information for the new class.

Fiscal Impact

The fiscal impact of the finding is \$662,837.

Recommendation

We recommend the District revise and resubmit the second period apportionment report. In addition, we recommend all contracts be signed by the student, parent/guardian, counselor, and program administrator prior to the commencement of the semester. All contracts should include documentation on the number or course credits that may be earned upon completion of the courses.

Corrective Action Plan

The District has revised the Second Period Report of Attendance. The revised totals are presented in the Schedule of Daily Attendance section of this report. The District has also revised the Independent Study Contract and met with school staff to revise procedures in order to minimize a recurrence of this finding.

3. **STATE COMPLIANCE - ATTENDANCE (10000)**

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the State.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

(Continued)

3. STATE COMPLIANCE - ATTENDANCE (10000) (Continued)

Conditions

At Jane Frederick Continuation High School, one student was marked absent on the instructor's attendance reporting scantron but the system generated report "Hourly Attendance Report" indicated the student was present.

Effect

The extrapolated error is an overstatement of 0.49 ADA.

Cause

The scantron attendance report is not consistent with the system generated reports.

Fiscal Impact

The extrapolated ADA impact is below 0.50 ADA, therefore District is not required to revise P2 for the Continuation Education finding. In addition, it is expected that there is no fiscal impact as the District is in "declining enrollment" status.

Recommendation

We recommend the site ensure the teacher scantrons agree to the attendance recorded in the system after each reporting period.

Corrective Action Plan

The District internal audit department will meet with school site staff to review procedures and the need for scantron forms to agree with the attendance recorded in the District attendance system.

4. STATE COMPLIANCE - ATTENDANCE (10000)

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the State.

Conditions

At Stockton Early College Academy, four students were improperly claimed for apportionment for a total of 7 days.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

(Continued)

4. STATE COMPLIANCE - ATTENDANCE (10000) (Continued)

Effect

The extrapolated error is an overstatement of 0.56 ADA.

Cause

The errors were the result of clerical errors in accounting for attendance

Fiscal Impact

Because the District is in declining enrollment and prior year ADA is used for the revenue limit calculation, there is no current year fiscal impact.

Recommendation

The District should revise the Second Period Report of Attendance removing the disallowed ADA. Also, reports at the school sites should be reviewed to ensure the attendance report is accurate.

Corrective Action Plan

The District has revised the Second Period Report of Attendance. The revised totals are presented in the Schedule of Daily Attendance section of this report. The District's internal auditing department will meet with school site personnel to review the need to maintain accurate attendance accounting records.

5. STATE COMPLIANCE - KINDERGARTEN CONTINUATION (40000)

Criteria

California Department of Education Code section 46300 (g) requires kindergarten students who have been retained in kindergarten to have a signed agreement approved in form and content by the State Department of Education.

Conditions

The agreement forms for students retained in kindergarten were not properly completed for 5 individuals.

Effect

District is out of compliance with Education Code section 46300, thus resulting in an overstatement of 2.21 ADA.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2010

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

(Continued)

5. STATE COMPLIANCE - KINDERGARTEN CONTINUATION (40000) (Continued)

Cause

The errors were the result of agreement forms not being properly completed for students retained in kindergarten for a second year.

Fiscal Impact

Because the District is in declining enrollment and prior year ADA is used for the revenue limit calculation, there is no current year fiscal impact.

Recommendation

The District should enforce controls to ensure all forms are completed and maintained for students retained in Kindergarten for a second year. In addition, the District should perform a cursory review of the continuation forms, to ensure all of the required elements are included in form and content, before preparing Period Two and Annual Reports of Attendance. Lastly, the District should revise and re-submit the Period Two Report of Attendance, reflecting the removal of the disallowed ADA.

Corrective Action Plan

The District has revised the Second Period Report of Attendance. The revised totals are presented in the Schedule of Daily Attendance section of this report. The District's internal audit department will work with the educational services department and the various sites to ensure agreement forms are properly completed and maintained.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2010

| Finding/Recommendation | Current Status | District Explanation If Not Implemented |
|--|-------------------------------|--|
| <p>2009-1</p> <p>At various school sites selected for testing of Associated Student Body financial activity, common items were noted:</p> <p>Cash receipts schedules showing the number of items sold, price per item and the cash collected are not prepared.</p> <p>Logs are not used to track the issuance of sub-receipt books.</p> <p>Cash count forms are not used to support deposits.</p> <p>Deposits are not made on a timely basis.</p> <p>Profit and loss statements are not prepared for the student store.</p> <p>We recommend: ASB Advisor should collect supporting schedule from the Activities Coordinator which should support the funds collected.</p> <p>Receipt books used by staff should be tracked using a receipt book log.</p> <p>Cash count forms should be used to reconcile all pre-numbered receipts to deposits.</p> <p>District should enforce a policy to have deposits made on a timely basis (at least bi-weekly).</p> <p>Monthly profit and loss statements for student store should be prepared and reviewed by an independent individual.</p> | <p>Partially implemented.</p> | <p>See current year finding #2.</p> |
| <p>2009-2</p> <p>At Grant Elementary School, one student was improperly claimed for apportionment for one day.</p> <p>At San Joaquin Elementary School, one student was improperly claimed for apportionment for one day.</p> | <p>Partially implemented.</p> | <p>See current year finding #4.</p> |

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

Year Ended June 30, 2010

| Finding/Recommendation | Current Status | District Explanation If Not Implemented |
|---|-----------------------|--|
| 2009-2 (Continued) | | |
| We recommend: The District should revise the Second Period Report of Attendance removing the disallowed ADA. Also, reports at the school sites should be reviewed to ensure the attendance reported is accurate. | | |