

STOCKTON UNIFIED SCHOOL DISTRICT
Stockton, California

FINANCIAL STATEMENTS
June 30, 2012

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet - to the Statement of Net Assets	19
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds - to the Statement of Activities	21
Statement of Fund Net Assets - Proprietary Fund - Self-Insurance Fund	23
Statement of Revenues, Expenses and Change in Fund Net Assets - Proprietary Fund - Self-Insurance Fund	24
Statement of Cash flows - Proprietary Fund - Self-Insurance Fund	25
Statement of Fiduciary Net Assets - Trust and Agency Funds	26
Statement of Change in Fiduciary Net Assets - Fiduciary Fund	27
Notes to Basic Financial Statements	28

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
Required Supplementary Information:	
General Fund Budgetary Comparison Schedule	58
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	59
Notes to Required Supplementary Information	60
Supplementary Information:	
Combining Balance Sheet - All Non-Major Funds	61
Combining Statement of Revenues, Expenditures and Change in Fund Balances - All Non-Major Funds	62
Organization	63
Schedule of Average Daily Attendance	64
Schedule of Instructional Time	66
Schedule of Expenditure of Federal Awards	68
Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements	71
Schedule of Financial Trends and Analysis - Unaudited	72
Schedule of Charter Schools	73
Notes to Supplementary Information	74
Independent Auditors' Report on Compliance with State Laws and Regulations	76
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	81

STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
Findings and Recommendations:	
Schedule of Audit Findings and Questioned Costs	83
Status of Prior Year Findings and Recommendations	89

REPORT OF INDEPENDENT AUDITORS

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, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Stockton Unified School District as of June 30, 2012, 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 13, 2012 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 15 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule on page 58 and Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 59 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stockton Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplemental information listed in the table of contents, except for the Schedule of Financial Trends and Analysis, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplemental information listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated in all material respects in relation to the financial statements as a whole. The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2012



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2012, is presented in this discussion and analysis of the District's financial position and performance.

This Management 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 2012 fiscal year was \$384.6 million. Expenditures totaled \$360 million. Net assets increased by \$24.6 million. This represents a 9.63% increase over the prior year.
- Capital assets, net of depreciation, increased by \$25.7 million. Projects completed during the fiscal year included the modernization of the Walton Special Center, the construction of the Food Services Operations Center, and the acquisition of seven school buses.
- Construction and modernization work continued at a number of District school sites. Costs expended on projects in the construction phase totaled \$97.3 million at the end of the fiscal year.
- Long-term debt decreased by \$4.9 million due, in part, to the paying down of General Obligation Bond and Certificates of Participation debt, the payoff of the 2000 Qualified Zone Academy Bond (QZAB), and normal payments on other debt instruments. Long-term debt increases included additional postretirement healthcare benefit costs, and the accretion of interest on the Series D General Obligation Bonds from the Election of 2008.

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 one internal service fund – the self-insurance 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, 2012 and 2011 is presented by category in the table below:

	Government-Wide Activities		Year Over
	2012	2011	Year Change
Current and other assets:			
Cash	\$ 172,098,459	\$ 185,919,849	\$(13,821,390)
Receivables	87,399,041	64,927,523	22,471,518
Inventories	1,428,760	1,303,338	125,422
Other current assets	8,570,435	7,990,529	579,906
Capital assets, net of depreciation	<u>500,705,822</u>	<u>474,980,242</u>	<u>25,725,580</u>
Total assets	<u>770,202,517</u>	<u>735,121,481</u>	<u>35,081,036</u>
Long-term debt outstanding	414,162,390	419,028,137	(4,865,747)
Other liabilities	<u>76,171,287</u>	<u>60,815,091</u>	<u>15,356,196</u>
Total liabilities	<u>490,333,677</u>	<u>479,843,228</u>	<u>10,490,449</u>
Net assets:			
Invested in capital assets, net of related debt	218,203,624	188,053,290	30,150,334
Restricted	45,556,594	70,192,010	(24,635,416)
Unrestricted	<u>16,108,622</u>	<u>(2,967,047)</u>	<u>19,075,669</u>
Total Net Assets	<u>\$ 279,868,840</u>	<u>\$ 255,278,253</u>	<u>\$ 24,590,587</u>

Total assets increased by \$35.1 million during the 2012 fiscal year. Of this total, cash accounts decreased by \$13.8 million, receivables increased by \$22.5 million, and other assets increased by \$0.7 million. Capital assets, net of depreciation, increased by a total of \$25.7 million. Capital assets are discussed in more detail later in this Management Discussion and Analysis report.

Total liabilities increased by a net \$10.5 million. Long-term debt decreased by \$4.9 million, primarily due to paying down on General Obligation bond debt, the payoff of the Qualified Zone Academy Bond (QZAB) issued in 2000, and the normal payments on other debt instruments owed by the District. Other liabilities, which include accounts payable and deferred revenue, increased by \$15.4 million. A discussion of the District's long-term debt is included later in this report.

The difference between the \$35.1 million increase to Total assets and the \$10.5 million increase to Total liabilities results in a net \$24.6 million increase to Total Net Assets, a 9.63% change from the balance at June 30, 2011.

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
	2012	2011	Year Change
Revenues – Program:			
Charges for Services	\$ 1,690,589	\$ 2,088,330	\$ (397,741)
Operating Grants and Contributions	117,019,077	105,242,411	11,776,666
Capital Grants and Contributions	19,161,274	--	19,161,274
Revenues – General:			
Unrestricted Federal and State Aid	191,764,753	188,882,275	2,882,478
Taxes Levied for General Purposes	29,760,733	32,416,494	(2,655,761)
Taxes Levied for Debt Service	19,146,290	18,323,549	822,741
Taxes Levied for Other Purposes	590,678	613,515	(22,837)
Interest and Investment Earnings	1,980,662	2,766,128	(785,466)
Other General Revenues	<u>3,474,433</u>	<u>8,612,826</u>	<u>(5,138,393)</u>
Total Revenues	<u>384,588,489</u>	<u>358,945,528</u>	<u>25,642,961</u>
Expenses:			
Instruction	210,507,646	215,475,574	(4,967,928)
Pupil and Instructional Services	81,772,122	81,912,325	(140,203)
General Administration	15,297,348	18,669,486	(3,372,138)
Plant Services	32,919,005	35,384,773	(2,465,768)
Other Expenses	<u>19,501,781</u>	<u>17,221,703</u>	<u>2,280,078</u>
Total Expenses	<u>359,997,902</u>	<u>368,663,861</u>	<u>(8,665,959)</u>
Increase (Decrease) in Net Assets	24,590,587	(9,718,333)	34,308,920
Net Assets, Beginning of the Year	<u>255,278,253</u>	<u>264,996,586</u>	<u>(9,718,333)</u>
Net Assets, End of the Year	<u>\$ 279,868,840</u>	<u>\$ 255,278,253</u>	<u>\$ 24,590,587</u>

For the 2012 fiscal year, total District revenues were \$384.6 million. Total District expenses were \$360 million. The difference, \$24.6 million, is an increase in District net assets, raising total net assets at June 30, 2012 to \$279.9 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, not including the District's dependent charter schools, declined in 2012 when compared with the prior school year. Total second month enrollment in Grades K – 12 for the 2012 fiscal year was 34,929 students, a decrease of 606 students from the 2011 year. When District charter school enrollment is included in the totals, enrollment increased by 29 students, indicating that while regular District enrollment is declining, at the regular schools it is offset by students choosing to attend the District's charter schools.

This same trend is seen with Average Daily Attendance (ADA). For the 2012 fiscal year, the ADA for the Second Principal Apportionment (P-2) period totaled 32,664, a decline of 554 ADA from the prior fiscal year. Most of the decrease results from students migrating to District or independent charter schools.

Governmental Activities

Governmental Activities Expenditures

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction, Instruction-related Services and Pupil Services	\$ 292,279,768	\$ 297,387,899	\$ 164,289,857	\$ 198,933,854
General Administrative and Plant Services	48,216,353	54,054,259	42,921,211	49,704,276
Ancillary Services	<u>950,643</u>	<u>914,121</u>	<u>882,647</u>	<u>828,952</u>
Totals	<u>\$ 341,446,764</u>	<u>\$ 352,356,279</u>	<u>\$ 208,093,715</u>	<u>\$ 249,467,082</u>

This table displays by function the total and net cost of services provided for the 2012 and 2011 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, 2012, the District had fourteen governmental funds reporting a combined fund balance of \$188.1 million, a decrease of \$7.8 million over the prior year. Of these funds, nine 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
	2012	2011	
General Fund	\$ 51,007,399	\$ 43,097,749	\$ 7,909,650
Charter Schools Special Revenue Fund	1,147,621	370,646	776,975
Adult Education Fund	1,779,776	424,893	1,354,883
Child Development Fund	37,716	204,918	(167,202)
Cafeteria Special Revenue Fund	11,019,054	9,227,160	1,791,894
Deferred Maintenance Fund	--	71,630	(71,630)
Building Fund	23,776,909	16,412,753	7,364,156
Capital Facilities Fund	26,239,098	27,958,811	(1,719,713)
County School Facilities Fund	25,926	25,022	904
Special Reserve for Capital Outlay Projects	53,779,942	78,811,391	(25,031,449)
Capital Proj. Fund for Blended Component Units	1,519	1,517	2
Bond Interest and Redemption Fund	14,240,985	14,169,435	71,550
Tax Override Fund	13,161	13,130	31
Debt Service Fund	<u>5,057,693</u>	<u>5,169,988</u>	<u>(112,295)</u>
Totals	<u>\$ 188,126,799</u>	<u>\$ 195,959,043</u>	<u>\$ (7,832,244)</u>

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2012, along with the increase or decrease from fiscal year 2011 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

General Fund			
FY-2012 Actual	Percent Of Total	Increase (Decrease) from FY-2011	Percent Increase or (Decrease)

Revenues:

Revenue Limit	\$ 172,536,473	56.69%	\$ (3,284,952)	(1.87)%
Federal Revenue	45,899,198	15.08%	8,525,155	22.81%
Other State Revenue	79,464,792	26.11%	131,283	0.17%
Other Local Revenue	<u>6,449,989</u>	<u>2.12%</u>	<u>452,517</u>	7.55%
Total Revenues	<u>\$ 304,350,452</u>	<u>100.00%</u>	<u>\$ 5,824,003</u>	1.95%

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-2012 Actual	Percent Of Total	Increase (Decrease) from FY-2011	Percent Increase or (Decrease)

Expenditures:

Certificated Salaries	\$ 135,828,638	45.89%	\$ (1,813,010)	(1.32)%
Classified Salaries	42,491,993	14.36%	(2,370,721)	(5.28)%
Employee Benefits	71,955,790	24.31%	2,099,813	3.01%
Books and Supplies	13,908,878	4.70%	1,122,352	8.78%
Services, Other Operating Expenses	31,444,543	10.62%	1,011,197	3.32%
Capital Outlay	803,343	0.27%	(153,302)	(16.02)%
Other Outgo/Dir. Supp./Indirect Costs	<u>461,869</u>	<u>(0.15)%</u>	<u>51,945</u>	12.67%
Total Expenditures	<u>\$ 296,895,054</u>	<u>100.00%</u>	<u>\$ (51,726)</u>	(0.02)%

The District's financial condition was tested during the 2012 fiscal year because of declining average daily attendance causing reduced revenue, cash flow concerns resulting from the state's deferral of apportionment allocations, and the continued 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.

General Fund Budgetary Highlights

The District's 2012 General Fund operating budget was adopted by the Governing Board in June of 2011. As adopted, budgeted revenues totaled \$283.5 million. This represents \$4.0 million more than the \$279.5 million budgeted for expenditures.

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 reflected in the 2011-12 Second Interim report.

	General Fund		Increase (Decrease)
	FY-12 Actual Revenue	Board Approved Budget	
Revenue:			
Revenue Limit Sources	\$ 172,536,473	\$ 172,592,590	\$ (56,117)
Federal Revenue	45,899,198	62,764,272	(16,865,074)
Other State Revenue	79,464,792	78,244,782	1,220,010
Other Local Revenue	6,449,989	6,755,179	(305,191)
Transfers In/Other Sources	<u>1,114,494</u>	<u>1,189,878</u>	<u>(75,384)</u>
Total Revenue	<u>\$ 305,464,946</u>	<u>\$ 321,546,701</u>	<u>\$ (16,081,755)</u>

	General Fund		Increase (Decrease)
	FY-12 Actual Expenditures	Board Approved Budget	
Expenditures:			
Certificated Salaries	\$ 135,828,638	\$ 137,398,493	\$ (1,569,855)
Classified Salaries	42,491,993	42,809,729	(317,736)
Employee Benefits	71,955,790	72,333,626	(377,836)
Books and Supplies	13,908,878	39,787,260	(25,878,382)
Services and Other Operating Expenses	31,444,544	34,728,939	(3,284,395)
Capital Outlay	803,343	39,713	763,630
Other Outgo/ Direct Support/Indirect Costs	461,869	(872,595)	(1,334,464)
Transfers Out/Other Uses	<u>660,242</u>	<u>765,612</u>	<u>(105,370)</u>
Total Expenditures	<u>\$ 297,555,296</u>	<u>\$ 326,990,777</u>	<u>\$ (29,435,481)</u>
Change in Net Ending Balance	<u>\$ 7,909,650</u>	<u>\$ (5,444,076)</u>	<u>\$ 13,353,726</u>

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2012	2011
Land	\$ 25,735,353	\$ 25,735,353
Improvement of Sites	3,879,377	4,144,472
Buildings	366,785,028	363,644,381
Equipment	7,005,374	6,560,075
Construction in Progress	<u>97,300,690</u>	<u>74,895,961</u>
Totals	<u>\$ 500,705,822</u>	<u>\$ 474,980,242</u>

Capital assets in the table above are reflected at June 30, 2012 and 2011, 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 a net \$25.7 million during the year. Major capital asset projects completed during the year include the following:

✓ Construction	Food Services Operations Center	\$ 0.4 million
✓ Modernization	Walton Special Center	\$13.6 million
✓ Equipment	Seven School Buses	\$.8 million
✓ Equipment	Classroom Telephones	\$.5 million
✓ Equipment	Student Information System	\$.3 million

A total of \$97.3 million has been expended on projects still in the construction phase. This includes construction work on the athletic facilities projects at the comprehensive high schools and modernization projects at a number of school sites. Costs for projects in the construction phase increased by a net \$22.4 million during fiscal year 2012. Depreciation expense totaled \$12.4 million for the year.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2012	2011
General Obligation Bonds, including Premiums	\$ 324,742,750	\$ 331,581,600
Accreted Interest – 2008 Series D General Obligation Bonds	2,793,966	--
Certificates of Participation, including Premiums	49,660,140	51,196,291
Capitalized Lease Obligations	--	370,675
California Energy Commission Loan	--	189
Qualified Zone Academic Bonds Payable	5,000,000	6,635,000
Charter School Loan	166,667	250,000
Redevelopment Agency Repayment	1,210,925	--
Postretirement Healthcare Benefits	18,638,418	13,842,096
PARS Liability	7,379,929	10,450,502
Compensated Absences	<u>4,569,595</u>	<u>4,701,784</u>
Totals	<u>\$ 414,162,390</u>	<u>\$ 419,028,137</u>

Outstanding debt decreased by a net \$4.9 million during the fiscal year. Decreases resulted from the yearly payment of General Obligation Bond and Certificates of Participation obligations, the payoff of the 2000 Qualified Zone Academy Bond, the final payments on capitalized lease obligations, and the payment reduction of other debt instruments. Outstanding debt increases included higher postretirement healthcare benefit costs and the accretion of interest on Series D General Obligation Bonds approved in the election of 2008.

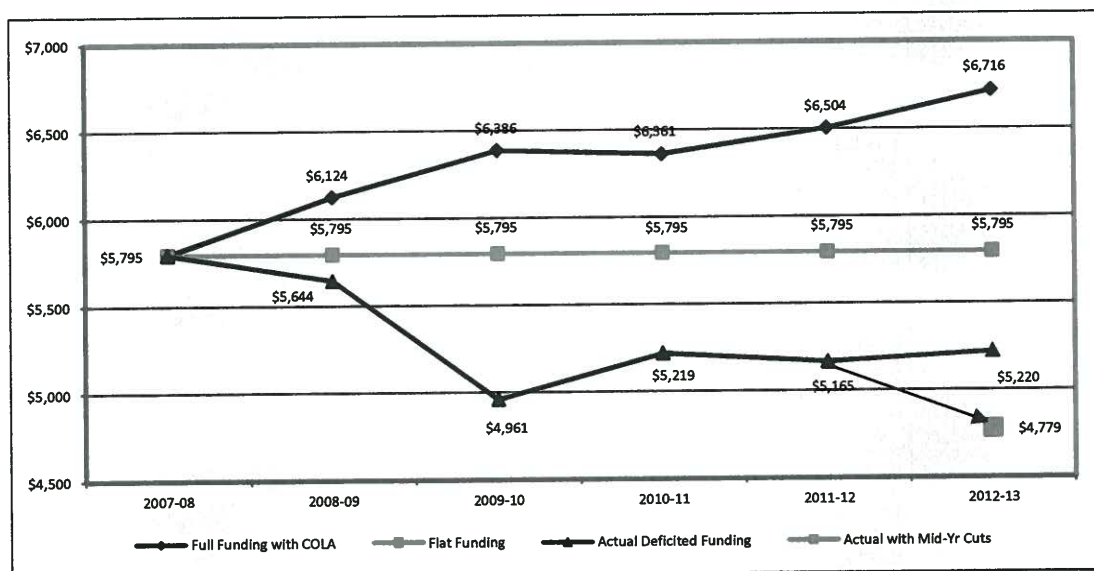
The notes to the financial statements are an integral part of the financial presentation and contain more detailed information as to interest, principal, retirement amounts, and future debt retirement dates.

Economic Factors and Next Year's Budgets and Rates

The 2012-13 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 and Adopted Budget adjustments.

At the start of the 2012-13 fiscal year, Stockton Unified faced an uncertain financial picture that was partially resolved with the results of the November 2012 election. Included on the November ballot was an initiative which promised to bring additional revenue to schools. Proposition 30, backed by California Governor Jerry Brown, while promising additional revenue, was somewhat misleading in that the revenue to be provided by the state would only keep school funding at the approximate level provided during the 2011-12 year. Failure of the initiative to pass would result in a mid-year cut to K-12 education of over \$400 per unit of average daily attendance. Fortunately, Proposition 30 was approved by 54% of the electorate.

The reality of K-12 school funding over the last six years is depicted in the graph below. If school funding included the cost of living adjustments computed over these years, Stockton Unified would be receiving funding of \$6,716 per ADA for the 2012-13 year. Even with no cost of living adjustments, the District should be receiving \$5,795 per ADA. Due to state budget cuts in prior years, the District will be receiving even less. With the passage of Proposition 30, the District will receive \$5,220 per ADA, approximately the same funding as the 2011-12 year. If the initiative had failed, the District would have seen funding reduced to \$4,779 per ADA. This reduction would have totaled over \$15 million for Stockton Unified School District.



Source: School Services of California

Compounding the school funding gap are the struggling national and state economies which continue to expand at a subdued pace. Stockton Unified continues to find itself in a precarious situation where cash management becomes critical. The District is dealing with the current financial uncertainties by constantly monitoring cash flow projections, 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 continues to look for cost cutting measures and to solicit ideas from staff, bargaining units, and the public to further reduce the budget, especially if mid-year cuts are instituted. 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. 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 2012-13 budget are discussed below.

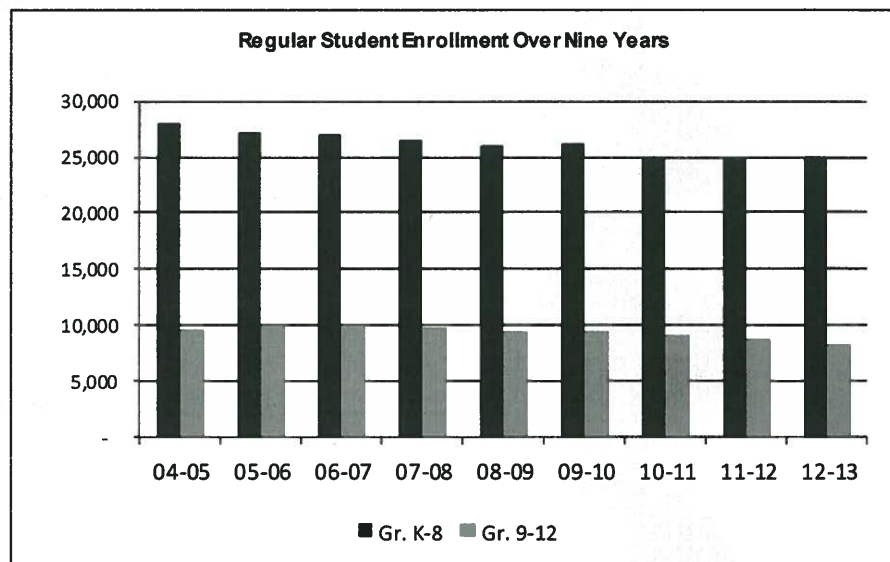
Student Enrollment and Enrollment Projections

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 2012-13 school year began, enrollment in the District’s regular schools was stable when compared to the enrollment totals from the prior year. Enrollment at the District’s charter schools was showing a slight decline from what was projected.

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. For the 2012-13 year, the District’s Primary Years Academy is converting back to regular school status after one year as a charter school. While this change does not affect the overall enrollment of the District, the revenue generated from attendance by Primary Years Academy students will provide additional revenue for the General Fund. Other District charter schools, such as the Health Careers Academy and Stockton Early College Academy, are adding an additional grade to their programs. This will result in a further draw of District students from regular schools to charter schools. To offset this revenue loss to the General Fund, the District works to make these school conversions and expansions 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.

The graph to the right provides an overview of the District’s enrollment over the past nine years.

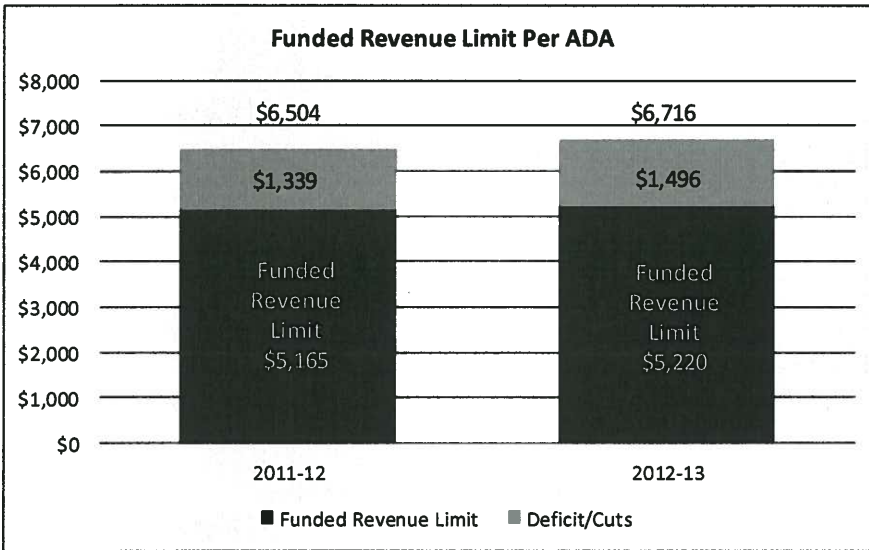
In planning a viable budget, the preparation of accurate enrollment projections is critical. It becomes even more important when the economy is struggling and revenue coming to the District is restricted or deferred by decisions made at the state level. The District continues



to be vigilant in monitoring and projecting student enrollment. Work continues to refine methods in projecting enrollment which allows for better planning of the educational program and control over operational costs.

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.

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 2012-13 year, a deficit factor of 22.272% has been applied to the Base Revenue Limit per ADA to provide school District funding of approximately \$5,220 per unit of average daily attendance, essentially unchanged from the 2011-12 year. The effect of this is displayed in the graph above.

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 92% of the General Fund unrestricted 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

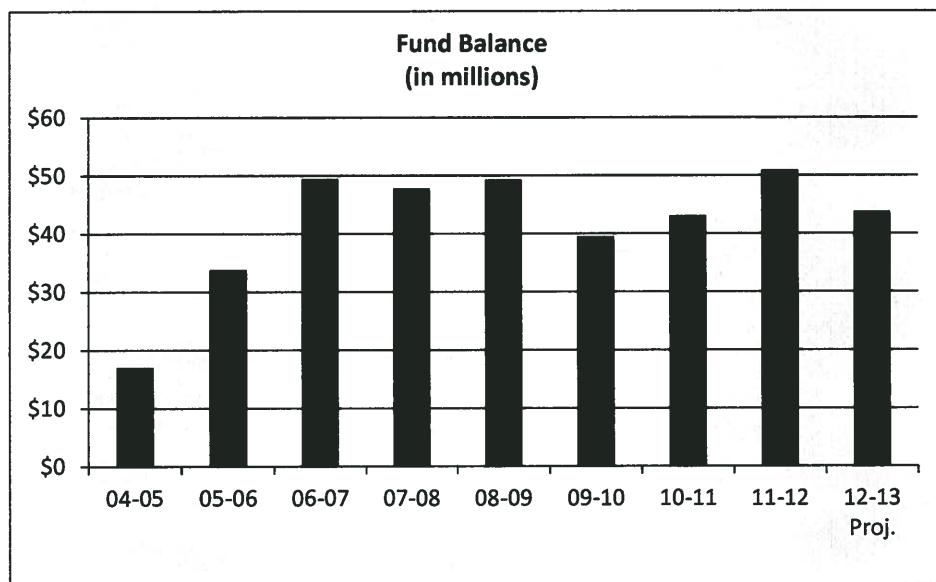
The cost of health care is expected to increase over the next few years. The District has established a health benefits allowance for 2012-13 based on a projected cost increase of 10%. This increase results from collective bargaining contracts in which an expense cap does not exist and the District is obligated to absorb any cost increases. The District anticipates continued pressure to increase the health benefits allowance as costs 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 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 \$5.9 million.). Setting aside a state required reserve means that the District has fewer dollars available for operational areas. It also means that a reserve balance is available if the District must address an unplanned financial situation.

The graph below shows the history of the District’s General Fund balance, including a projected net ending fund balance for the 2012-13 year.



Note: The projected fund balance for FY 2012-13 includes restricted balance estimates.

Conclusion

The District continues to face many challenges: uncertain 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 necessary knowledge 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. Wayne Martin, Chief Business Official, Stockton Unified School District, 701 North Madison Street, Stockton, CA 95202.

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 172,098,459
Receivables	87,399,041
Prepaid expenditures	8,570,435
Stores inventory	1,428,760
Non-depreciable capital assets (Note 4)	123,036,043
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>377,669,779</u>
Total assets	<u>770,202,517</u>
LIABILITIES	
Accounts payable	30,705,798
TRANS payable (Note 5)	25,080,000
Claims liability (Note 6)	12,086,000
Deferred revenue	8,299,489
Long-term liabilities (Note 7):	
Due within one year	13,686,386
Due after one year	<u>400,476,004</u>
Total liabilities	<u>490,333,677</u>
NET ASSETS	
Invested in capital assets, net of related debt	218,203,624
Restricted (Note 8)	45,556,594
Unrestricted	<u>16,108,622</u>
Total net assets	<u>\$ 279,868,840</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
					<u>Governmental Activities</u>
Governmental activities (Note 4):					
Instruction	\$ 210,507,646	\$ 128,081	\$ 58,405,998	\$ 19,161,274	\$ (132,812,293)
Instruction-related services:					
Supervision of instruction	23,919,191	8,661	17,499,829	-	(6,410,701)
Instructional library, media and technology	827,147	3,668	537,666	-	(285,813)
School site administration	17,774,982	3,414	2,172,664	-	(15,598,904)
Pupil services:					
Home-to-school transportation	9,379,240	-	4,629,384	-	(4,749,856)
Food services	14,609,419	466,420	15,989,810	-	1,846,811
All other pupil services	15,262,143	54,600	8,928,442	-	(6,279,101)
General administration:					
Data processing	2,933,424	2,953	9,429	-	(2,921,042)
All other general administration	12,363,924	28,275	3,005,133	-	(9,330,516)
Plant services	32,919,005	21,999	2,227,353	-	(30,669,653)
Ancillary services	950,643	-	67,996	-	(882,647)
Enterprise activities	2,118	-	-	-	(2,118)
Other outgo	1,577,275	972,518	3,545,373	-	2,940,616
Interest on long-term liabilities	16,823,639	-	-	-	(16,823,639)
Unallocated depreciation	148,106	-	-	-	(148,106)
	<u>\$ 359,997,902</u>	<u>\$ 1,690,589</u>	<u>\$ 117,019,077</u>	<u>\$ 19,161,274</u>	<u>(222,126,962)</u>
Total governmental activities					
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					29,760,733
Taxes levied for debt service					19,146,290
Taxes levied for other specific purposes					590,678
Federal and state aid not restricted to specific purposes					191,764,753
Interest and investment earnings					1,980,662
Interagency revenues					1,077,723
Miscellaneous					<u>2,396,710</u>
					<u>246,717,549</u>
Total general revenues					
					24,590,587
Change in net assets					
					<u>255,278,253</u>
Net assets, July 1, 2011					
					<u>\$ 279,868,840</u>
Net assets, June 30, 2012					

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund (01)</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	\$ 15,285,163	\$ 8,541,467	\$ -	\$ 24,505,377	\$ 48,332,007
Cash in County Treasury restricted for capital projects	-	-	58,796,701	24,872,911	83,669,612
Cash on hand and in banks	-	-	-	2,448	2,448
Cash in revolving fund	70,000	-	-	2,500	72,500
Cash with Fiscal Agent	1,612,312	17,288,485	-	5,054,327	23,955,124
Receivables	79,169,314	4,532	31,095	8,041,115	87,246,056
Prepaid expenditures	923,799	-	116,119	3,485	1,043,403
Due from other funds	3,742,875	940,678	-	832,011	5,515,564
Stores inventory	1,101,475	-	-	327,285	1,428,760
	<u>101,904,938</u>	<u>26,775,162</u>	<u>58,943,915</u>	<u>63,641,459</u>	<u>251,265,474</u>
Total assets					
	<u>\$ 101,904,938</u>	<u>\$ 26,775,162</u>	<u>\$ 58,943,915</u>	<u>\$ 63,641,459</u>	<u>\$ 251,265,474</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 16,207,153	\$ 536,064	\$ 5,163,973	\$ 2,338,522	\$ 24,245,712
TRANS payable	25,080,000	-	-	-	25,080,000
Deferred revenue	8,193,220	-	-	106,269	8,299,489
Due to other funds	1,417,166	-	-	4,096,308	5,513,474
	<u>50,897,539</u>	<u>536,064</u>	<u>5,163,973</u>	<u>6,541,099</u>	<u>63,138,675</u>
Total liabilities					
	<u>50,897,539</u>	<u>536,064</u>	<u>5,163,973</u>	<u>6,541,099</u>	<u>63,138,675</u>
Fund balances:					
Nonspendable	2,095,274	-	116,119	333,270	2,544,663
Restricted	6,219,634	26,239,098	53,663,823	56,767,090	142,889,645
Assigned	36,759,549	-	-	-	36,759,549
Unassigned	5,932,942	-	-	-	5,932,942
	<u>51,007,399</u>	<u>26,239,098</u>	<u>53,779,942</u>	<u>57,100,360</u>	<u>188,126,799</u>
Total fund balances					
	<u>51,007,399</u>	<u>26,239,098</u>	<u>53,779,942</u>	<u>57,100,360</u>	<u>188,126,799</u>
Total liabilities and fund balances					
	<u>\$ 101,904,938</u>	<u>\$ 26,775,162</u>	<u>\$ 58,943,915</u>	<u>\$ 63,641,459</u>	<u>\$ 251,265,474</u>

* Refer to page 61

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT

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

June 30, 2012

Total fund balances - Governmental Funds		\$ 188,126,799
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 \$662,782,159 and the accumulated depreciation is \$162,076,337 (Note 4).		500,705,822
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, 2012 consisted of (Note 7):		
General Obligation Bonds and premium	\$ (324,742,750)	
Accreted Interest	(2,793,966)	
Certificates of Participation and premium	(49,660,140)	
Qualified Zone Academy Bonds	(5,000,000)	
Charter School Loan	(166,667)	
Redevelopment Agency Repayment	(1,210,925)	
Post-employment healthcare benefits	(18,638,418)	
PARS Liability	(7,379,929)	
Compensated absences	<u>(4,569,595)</u>	
		(414,162,390)
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.		(4,197,918)
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 for the Self-Insurance Fund total:		2,117,223
Costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as assets in governmental funds.		<u>7,279,304</u>
Total net assets - governmental activities		<u><u>\$ 279,868,840</u></u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	<u>General Fund (01)</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	\$ 146,660,577	\$ -	\$ -	\$ 10,680,045	\$ 157,340,622
Local sources	<u>25,875,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,875,896</u>
Total revenue limit	<u>172,536,473</u>	<u>-</u>	<u>-</u>	<u>10,680,045</u>	<u>183,216,518</u>
Federal sources	45,899,198	-	-	17,463,094	63,362,292
Other state sources	79,464,792	-	-	29,431,059	108,895,851
Other local sources	<u>6,449,989</u>	<u>2,071,097</u>	<u>177,217</u>	<u>20,415,978</u>	<u>29,114,281</u>
Total revenues	<u>304,350,452</u>	<u>2,071,097</u>	<u>177,217</u>	<u>77,990,176</u>	<u>384,588,942</u>
Expenditures:					
Certificated salaries	135,828,638	-	-	8,631,122	144,459,760
Classified salaries	42,491,993	-	382,096	6,861,595	49,735,684
Employee benefits	71,955,790	-	175,619	7,086,414	79,217,823
Books and supplies	13,908,878	-	930,664	7,684,069	22,523,611
Contract services and operating expenditures	31,444,543	229,443	491,887	3,971,984	36,137,857
Capital outlay	803,343	141,477	30,086,600	4,759,846	35,791,266
Other outgo	153,456	-	-	-	153,456
Debt service:					
Principal retirement	283,838	1,530,055	-	8,598,544	10,412,437
Interest	<u>24,575</u>	<u>1,889,835</u>	<u>-</u>	<u>12,074,882</u>	<u>13,989,292</u>
Total expenditures	<u>296,895,054</u>	<u>3,790,810</u>	<u>32,066,866</u>	<u>59,668,456</u>	<u>392,421,186</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,455,398</u>	<u>(1,719,713)</u>	<u>(31,889,649)</u>	<u>18,321,720</u>	<u>(7,832,244)</u>
Other financing sources (uses):					
Operating transfers in	1,114,494	-	6,858,200	14,379,584	22,352,278
Operating transfers out	<u>(660,242)</u>	<u>-</u>	<u>-</u>	<u>(21,692,036)</u>	<u>(22,352,278)</u>
Total other financing sources (uses)	<u>454,252</u>	<u>-</u>	<u>6,858,200</u>	<u>(7,312,452)</u>	<u>-</u>
Change in fund balances	7,909,650	(1,719,713)	(25,031,449)	11,009,268	(7,832,244)
Fund balances, July 1, 2011	<u>43,097,749</u>	<u>27,958,811</u>	<u>78,811,391</u>	<u>46,091,092</u>	<u>195,959,043</u>
Fund balances, June 30, 2012	<u>\$ 51,007,399</u>	<u>\$ 26,239,098</u>	<u>\$ 53,779,942</u>	<u>\$ 57,100,360</u>	<u>\$ 188,126,799</u>

* Refer to page 61

See accompanying notes to 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, 2012

Net change in fund balances - Total Governmental Funds	\$ (7,832,244)
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).	\$ 38,120,753
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(12,395,173)
Accreted interest on Capital Appreciation Bonds is not accrued in governmental funds, but is recognized over the life of the debt in government-wide financial statements (Note 7).	(2,793,966)
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 7):	(1,453,110)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 7).	10,412,437
In government funds, debt issue costs and premiums are recognized as expenditures in the period they are incurred. In government-wide statements, issue costs and premiums are amortized over the life of the debt.	(67,886)
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.	76,113
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:	2,117,223
In government funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 7).	(4,796,322)

(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, 2012

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 7).	\$ 3,070,573	
In the statement of activities, expenses related to 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 7).	<u>132,189</u>	<u>\$ 32,422,831</u>
Change in net assets of governmental activities		<u>\$ 24,590,587</u>

See accompanying notes to financial statements.

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

June 30, 2012

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 15,349,498
Cash with Fiscal Agent	717,270
Receivables	152,985
Prepaid Expenditures	<u>247,728</u>
 Total assets	 <u>16,467,481</u>

LIABILITIES

Accounts payable	2,262,168
Claims liability	12,086,000
Due to other funds	<u>2,090</u>
 Total liabilities	 <u>14,350,258</u>

NET ASSETS

Restricted	<u><u>\$ 2,117,223</u></u>
------------	----------------------------

See accompanying notes to 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, 2012

Operating revenues:	
Self-insurance premiums	\$ 15,449,896
Other local revenues	<u>8,140</u>
Total operating revenues	<u>15,458,036</u>
Operating expenses:	
Classified salaries	283,779
Employee benefits	141,972
Books and supplies	53,674
Contract services	<u>12,896,357</u>
Total operating expenses	<u>13,375,782</u>
Operating income	2,082,254
Non-operating income:	
Interest income	<u>34,969</u>
Change in net assets	2,117,223
Total net assets, July 1, 2011	<u>-</u>
Total net assets, June 30, 2012	<u><u>\$ 2,117,223</u></u>

See accompanying notes to financial statements.

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

For the Year Ended June 30, 2012

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 15,455,749
Cash paid for employee benefits	(4,804,248)
Cash paid for other expenses	<u>(8,445,102)</u>
Net cash provided by operating activities	<u>2,206,399</u>
Cash flows provided by investing activities:	
Interest income received	<u>34,969</u>
Cash flows provided by financing activities:	
Transfer from other fund	<u>1,142,157</u>
Increase in cash and investments	3,383,525
Cash and investments, July 1, 2011	<u>12,683,243</u>
Cash and investments, June 30, 2012	<u>\$ 16,066,768</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 2,082,254</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in:	
Receivables	(2,287)
Prepaid expenses	(247,728)
Increase in:	
Accounts payable and claims liability	373,469
Amount due to other funds	<u>691</u>
Total adjustments	<u>124,145</u>
Net cash provided by operating activities	<u>\$ 2,206,399</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
June 30, 2012

	<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)	\$ 855,445	\$ 667,391	\$ 1,522,836
LIABILITIES			
Due to student groups	<u>-</u>	<u>667,391</u>	<u>667,391</u>
NET ASSETS			
Restricted (Note 7)	<u>\$ 855,445</u>	<u>\$ -</u>	<u>\$ 855,445</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2012

	Scholarship Trust
Revenues:	
Other local sources	\$ 16,102
Expenditures:	
Contract services and operating expenditures	<u>23,960</u>
Change in net assets	(7,858)
Net assets, July 1, 2011	<u>863,303</u>
Net assets, June 30, 2012	<u><u>\$ 855,445</u></u>

See accompanying notes to 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. 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 as a Blended Component Unit.

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 Chief Business Official 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

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 Capital Facilities, Special Reserve, Building, 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.

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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental 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.

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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Compensated Absences

Compensated absences totaling \$4,569,595 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 appropriate for expenditure or amounts legally segregated for a specific future use. 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 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 scholarships represents the portion of net assets to be used to provide financial assistance to students of the District. It is the District's policy to first spend restricted net assets when allowable expenditures are incurred.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2012, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however, as of June 30, 2012, no such designation has occurred.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2012, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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.

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. All encumbrances are liquidated as of June 30.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>			<u>Fiduciary Activities</u>
	<u>Governmental Funds</u>	<u>Proprietary Fund</u>	<u>Total</u>	
Pooled Funds:				
Cash in County Treasury	\$ 48,332,007	\$ 15,349,498	\$ 63,681,505	\$ -
Cash in County Treasury - restricted for capital projects	<u>83,669,612</u>	<u>-</u>	<u>83,669,612</u>	<u>-</u>
Total pooled funds	<u>132,001,619</u>	<u>15,349,498</u>	<u>147,351,117</u>	<u>-</u>
Deposits:				
Cash on hand and in banks	2,448	-	2,448	1,522,836
Cash in revolving fund	<u>72,500</u>	<u>-</u>	<u>72,500</u>	<u>-</u>
Total deposits	<u>74,948</u>	<u>-</u>	<u>74,948</u>	<u>1,522,836</u>
Investments:				
Cash with Fiscal Agent	<u>23,955,124</u>	<u>717,270</u>	<u>24,672,394</u>	<u>-</u>
Total cash and investments	<u>\$ 156,031,691</u>	<u>\$ 16,066,768</u>	<u>\$ 172,098,459</u>	<u>\$ 1,522,836</u>

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.

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

2. CASH AND INVESTMENTS (Continued)

Pooled Funds (Continued)

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, 2012, 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

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2012, the carrying amount of the District's accounts was \$1,597,784 and the bank balance was \$1,619,543. \$250,000 of the bank balance was FDIC insured and \$1,369,543 remained uninsured.

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, 2012, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

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

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

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, 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, 2012 were as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
General	\$ 3,742,875	\$ 1,417,166
Capital Facilities	940,678	-
Special Reserve	-	-
Non-Major Funds:		
Charter School	763,948	3,594,415
Adult Education	6,100	285,660
Child Development	50,736	209,244
Cafeteria	8,497	6,989
Building	2,730	-
Proprietary Fund:		
Self-Insurance	-	2,090
Totals	\$ 5,515,564	\$ 5,515,564

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 2011-2012 fiscal year were as follows:

Transfer from the County Schools Facilities Fund to the Building Fund for the School Facility Program.	\$ 12,303,074
Transfer from the County Schools Facilities Fund to the Special Reserve Fund for the School Facility Program.	6,858,200
Transfer from the Bond Interest and Redemption Fund to the Debt Service Fund for the Qualified School Construction Bonds.	1,416,268
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	656,893
Transfer from the General Fund to the Charter School Fund to provide funding to cover expenses.	615,470
Transfer from the Charter School Fund to the General Fund for indirect costs.	214,764
Transfer from the Child Development Fund to the General Fund for indirect costs.	149,616
Transfer from the Adult Education Fund to the General Fund for indirect costs.	93,221
Transfer from the General Fund to the Child Development Fund to provide funding to cover expenses.	<u>44,772</u>
	<u><u>\$ 22,352,278</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, 2012 is shown below:

	Balance July 1, <u>2011</u>	Transfers and <u>Additions</u>	Transfers and <u>Deductions</u>	Balance June 30, <u>2012</u>
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 25,735,353	\$ -	\$ -	\$ 25,735,353
Work-in-process	74,895,961	37,310,296	(14,905,567)	97,300,690
Depreciable:				
Buildings	499,309,086	14,088,601	-	513,397,687
Site improvements	7,574,090	-	-	7,574,090
Equipment	<u>17,146,916</u>	<u>1,627,423</u>	<u>-</u>	<u>18,774,339</u>
Totals, at cost	<u>624,661,406</u>	<u>53,026,320</u>	<u>(14,905,567)</u>	<u>662,782,159</u>
Less accumulated depreciation:				
Buildings	(135,664,705)	(10,947,954)	-	(146,612,659)
Site improvements	(3,429,618)	(265,095)	-	(3,694,713)
Equipment	<u>(10,586,841)</u>	<u>(1,182,124)</u>	<u>-</u>	<u>(11,768,965)</u>
Total accumulated depreciation	<u>(149,681,164)</u>	<u>(12,395,173)</u>	<u>-</u>	<u>(162,076,337)</u>
Capital assets, net	<u>\$ 474,980,242</u>	<u>\$ 40,631,147</u>	<u>\$ (14,905,567)</u>	<u>\$ 500,705,822</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 11,157,053
Home to school	944,145
Food services	10,002
All other general administration	92,958
Plant services	42,909
Unallocated	<u>148,106</u>
Total depreciation expense	<u>\$ 12,395,173</u>

5. TAX AND REVENUE ANTICIPATION NOTES PAYABLE

On February 24, 2012, the District issued \$25,080,000 of Tax and Revenue Anticipation Notes (TRANS) maturing on December 31, 2012, with an interest rate of 2.00%, 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, 2013. As of June 30, 2012, the District is fully utilizing the cash from the TRANS and has recorded a liability of \$25,080,000 in the basic financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. 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.

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 June 30, 2012.

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

	June 30, <u>2012</u>	June 30, <u>2011</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 11,800,000	\$ 11,229,721
Total incurred claims and claim adjustment expenses	4,948,276	6,804,384
Total payments	<u>(4,662,276)</u>	<u>(6,234,105)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 12,086,000</u>	<u>\$ 11,800,000</u>

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

7. LONG-TERM LIABILITIES

General Obligation Bonds

Series 2001:

On June 20, 2001, the District issued General Obligation Bonds, Series 2001, totaling \$22,800,000. With the issuance of the 2011 General Obligation Refunding Bonds, \$9,145,000 of outstanding principal of the 2001 Bonds were defeased. 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>
2013	\$ -	\$ 361,600	\$ 361,600
2014	-	361,600	361,600
2015	-	361,600	361,600
2016	-	361,600	361,600
2017	-	361,600	361,600
2018-2022	1,290,000	1,775,750	3,065,750
2023-2027	<u>5,865,000</u>	<u>616,725</u>	<u>6,481,725</u>
	<u>\$ 7,155,000</u>	<u>\$ 4,200,475</u>	<u>\$ 11,355,475</u>

Series 2003:

On January 9, 2003, the District issued General Obligation Bonds, Series 2003, totaling \$28,000,000. With the issuance of the 2011 General Obligation Refunding Bonds, \$4,805,000 of outstanding principal of the 2003 General Obligation Bonds were defeased. The bonds bear interest at rates ranging from 3.00% to 5.25% and are scheduled to mature through January 2028 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 960,000	\$ 787,221	\$ 1,747,221
2014	995,000	748,821	1,743,821
2015	1,035,000	704,046	1,739,046
2016	1,080,000	661,353	1,741,353
2017	-	615,453	615,453
2018-2022	2,745,000	3,014,283	5,759,283
2023-2027	8,095,000	1,695,262	9,790,262
2028	<u>1,865,000</u>	<u>93,250</u>	<u>1,958,250</u>
	<u>\$ 16,775,000</u>	<u>\$ 8,319,689</u>	<u>\$ 25,094,689</u>

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

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,080,000	929,753	2,009,753
2017	1,125,000	888,173	2,013,173
2018-2022	6,395,000	3,689,062	10,084,062
2023-2027	8,015,000	2,084,031	10,099,031
2028-2029	<u>3,775,000</u>	<u>264,088</u>	<u>4,039,088</u>
	<u>\$ 23,390,000</u>	<u>\$ 10,863,371</u>	<u>\$ 34,253,371</u>

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,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,090,000	2,367,375	3,457,375
2017	1,300,000	2,314,125	3,614,125
2018-2022	10,245,000	10,439,650	20,684,650
2023-2027	18,505,000	7,393,131	25,898,131
2028-2031	<u>23,125,000</u>	<u>2,226,884</u>	<u>25,351,884</u>
	<u>\$ 56,445,000</u>	<u>\$ 32,069,240</u>	<u>\$ 88,514,240</u>

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

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,015,000	2,383,119	4,398,119
2017	2,080,000	2,288,300	4,368,300
2018-2022	11,465,000	9,760,438	21,225,438
2023-2027	12,845,000	6,719,613	19,564,613
2028-2032	<u>20,570,000</u>	<u>3,297,748</u>	<u>23,867,748</u>
	<u>\$ 54,650,000</u>	<u>\$ 32,092,050</u>	<u>\$ 86,742,050</u>

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,200,000	2,431,175	4,631,175
2017	2,300,000	2,341,175	4,641,175
2018-2022	12,400,000	10,265,425	22,665,425
2023-2027	15,000,000	7,245,500	22,245,500
2028-2032	18,700,000	3,302,313	22,002,313
2033	<u>4,300,000</u>	<u>102,125</u>	<u>4,402,125</u>
	<u>\$ 60,800,000</u>	<u>\$ 33,479,238</u>	<u>\$ 94,279,238</u>

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

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

2008 Series B:

On December 17, 2009, the District issued 2008 General Obligation Bonds, Series B, Qualified School Construction Bonds, 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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 351,276	\$ 351,276
2014	-	351,276	351,276
2015	-	351,276	351,276
2016	-	351,276	351,276
2017	-	351,276	351,276
2018-2022	-	1,756,380	1,756,380
2023-2026	<u>16,040,000</u>	<u>1,053,828</u>	<u>17,093,828</u>
	<u>\$ 16,040,000</u>	<u>\$ 4,566,588</u>	<u>\$ 20,606,588</u>

2008 Series C:

On July 22, 2010, the District issued 2008 General Obligation Bonds, Series C, Qualified School Construction Bonds, totaling \$14,930,000. The bonds bear a coupon rates from 5.170% to 7.080% and are scheduled to mature through August 2027 as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 961,342	\$ 961,342
2014	-	961,342	961,342
2015	-	961,342	961,342
2016	-	961,342	961,342
2017	1,830,000	914,037	2,744,037
2018-2022	5,410,000	3,598,850	9,008,850
2023-2027	6,350,000	1,611,838	7,961,838
2028	<u>1,340,000</u>	<u>47,436</u>	<u>1,387,436</u>
	<u>\$ 14,930,000</u>	<u>\$ 10,017,529</u>	<u>\$ 24,947,529</u>

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

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

2008 Series D:

On May 18, 2011, the District issued 2008 General Obligation Bonds, Series D, totaling \$56,146,497. The Bonds are issued as capital appreciation bonds and capital appreciation bonds that convert to current interest bonds. Interest on the Capital Appreciation Bonds will be compounded on August 1, 2011 and each February 1 and August 1 thereafter to maturity. The bonds bear coupon rates from 5.890% to 7.720% and are scheduled to mature through July 2050 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023-2027	\$ 3,415,604	\$ -	\$ 3,415,604
2028-2032	3,193,500	27,407,115	30,600,615
2033-2037	7,348,165	30,452,350	37,800,515
2038-2042	8,194,576	30,452,350	38,646,926
2043-2047	8,510,957	30,326,550	38,837,507
2048-2051	<u>25,483,695</u>	<u>13,787,685</u>	<u>39,271,380</u>
	<u>\$ 56,146,497</u>	<u>\$132,426,050</u>	<u>\$188,572,547</u>

2011 Refunding Bonds:

On May 2011, the District issued 2011 General Obligation Refunding Bonds totaling \$14,175,000. The Refunding Bonds were issued to provide funds to refund all or part of the Series 2001 and 2003 General Obligation Bonds and to pay cost of issuance of the Refunding Bond. The bonds bear coupon rates from 2.000% to 5.000% and are scheduled to mature through July 2021 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 581,600	\$ 581,600
2014	885,000	581,600	1,466,600
2015	915,000	555,050	1,470,050
2016	955,000	518,450	1,473,450
2017	990,000	480,250	1,470,250
2018-2022	<u>10,135,000</u>	<u>1,298,250</u>	<u>11,433,250</u>
	<u>\$ 13,880,000</u>	<u>\$ 4,015,200</u>	<u>\$ 17,895,200</u>

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

7. LONG-TERM LIABILITIES (Continued)

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 1, 2034. The Certificates are available for redemption on the Cross-Over Date of February 1, 2013. As of June 30, 2012 the District has \$17,288,485 set aside to refund \$10,640,881 of outstanding Certificates of Participation on February 1, 2013. Additionally, one final payment will be made from the District in the amount \$325,000 on January 15, 2013.

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. The proceeds of 2007 Certificates were used to provide funds to refund and defease the 1997 Certificates for the amount of \$13,186,141 and to establish the 2004 Escrow Fund of \$17,372,438 to secure the interest payments of 2007 Certificates and for the redemption of 2004 Certificates on February 1, 2013. The remaining proceeds of \$15,000,000 were allocated to capital projects.

Scheduled payments for the COPs are as follows:

Year Ending <u>June 30,</u>	COPs <u>Payments</u>
2013	\$ 3,099,390
2014	2,621,890
2015	2,619,890
2016	2,620,640
2017	2,618,890
2018-2022	13,103,835
2023-2027	13,088,319
2028-2032	13,096,625
2033-2036	<u>10,475,225</u>
Total payments	63,344,704
Less amount representing interest	<u>(24,794,704)</u>
Net present value of minimum payments	<u>\$ 38,550,000</u>

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

7. LONG-TERM LIABILITIES (Continued)

Qualified Zone Academy Bonds

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.

Charter School Loan

In April 2011, a one-time loan of \$250,000 was provided to Stockton Early College Academy. Funds are available through the Charter School Revolving Loan Fund to help meet initial operating costs for charter schools in their first charter term. Qualified expenses include, but are not limited to, the cost of leasing facilities, making necessary improvements to facilities and purchasing instructional materials.

Scheduled payments for the charter school loan are as follows:

Year Ending <u>June 30,</u>	Loan <u>Payments</u>
2013	\$ 83,947
2014	<u>83,604</u>
Total payments	167,551
Less amount representing interest	<u>(884)</u>
Net present value of minimum payments	<u><u>\$ 166,667</u></u>

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

7. LONG-TERM LIABILITIES (Continued)

Redevelopment Agency Repayment

Starting in 2012, the District is required to pay annual installments to the State of California. These payments are to return funds to the State of California related to excess apportionment received by the District in prior years.

Scheduled payments are as follows:

Year Ending <u>June 30,</u>	
2013	\$ 272,458
2014	266,403
2015	260,349
2016	254,294
2017	<u>248,240</u>
Total payments	1,301,744
Less amount representing interest	<u>(90,819)</u>
Net present value of minimum payments	<u>\$ 1,210,925</u>

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

7. LONG-TERM LIABILITIES (Continued)

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, 2012, 697 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.

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	\$ 8,561,636
Interest on net OPEB obligation	692,105
Adjustment to annual required contribution	<u>(102,281)</u>
Annual OPEB cost (expense)	9,151,460
Contributions made	<u>(4,355,138)</u>
Increase in net OPEB obligation	4,796,322
Net OPEB obligation - beginning of year	<u>13,842,096</u>
Net OPEB obligation - end of year	<u><u>\$ 18,638,418</u></u>

See also the Required Supplementary Information.

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

7. LONG-TERM LIABILITIES (Continued)

Post-Employment Healthcare Benefits (Continued)

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, 2012 and preceding two years were 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, 2010	\$ 5,603,738	88.7%	\$ 8,109,646
June 30, 2011	\$ 9,275,637	36.8%	\$ 13,842,096
June 30, 2012	\$ 9,151,460	47.6%	\$ 18,638,418

As of June 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$74.1 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$74.1. The covered payroll (annual payroll of active employees covered by the Plan) was \$194 million, and the ratio of the UAAL to the covered payroll was 39 percent. The OPEB plan is currently operated as a pay-as-you-go plan.

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 June 1, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 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, 2012, was 30 years.

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

7. LONG-TERM LIABILITIES (Continued)

Public Agency Retirement Services (PARS)

During the fiscal years ended June 30, 2009 and 2010, the District provided the option of a one-time Supplemental Employee Retirement Plan to the District employees. 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.

The annual requirements to amortize the SERP liability outstanding as of June 30, 2012 are as follows:

Year Ending June 30,	
2013	\$ 3,070,573
2014	3,070,573
2015	<u>1,238,783</u>
	<u>\$ 7,379,929</u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2012 is shown below:

	Balance July 1, 2011	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2012	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 326,762,497	\$ -	\$ 6,551,000	\$ 320,211,497	\$ 6,115,000
General Obligation Bonds Premium	4,819,103	-	287,850	4,531,253	287,850
Accreted interest	-	2,793,966	-	2,793,966	-
Certificates of Participation	51,045,936	-	1,530,055	49,515,881	3,424,390
Certificates of Participation Premium	150,355	-	6,096	144,259	6,096
Capitalized lease obligations	370,675	-	370,675	-	-
California Energy Commission Loan	189	-	189	-	-
Qualified Zone Academy Bonds	6,635,000	-	1,635,000	5,000,000	-
Charter School Loan	250,000	-	83,333	166,667	83,333
Redevelopment Agency Repayment	-	1,453,110	242,185	1,210,925	242,185
Post-employment healthcare benefits	13,842,096	9,151,460	4,355,138	18,638,418	-
PARS Liability	10,450,502	-	3,070,573	7,379,929	3,070,573
Compensated absences	4,701,784	-	132,189	4,569,595	456,959
	<u>\$ 419,028,137</u>	<u>\$ 13,398,536</u>	<u>\$ 18,264,283</u>	<u>\$ 414,162,390</u>	<u>\$ 13,686,386</u>

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

7. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities (Continued)

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the Capital Facilities Fund. Payments on the capitalized lease obligations are made from the General Fund and Cafeteria Fund. Payments on the California Energy Commission Loan are made from the General Fund. Payments on the Qualified Zone Academy Bonds are made from the Debt Service Fund. Payments on the Charter School Loan are made from the Charter School Fund. Payments on the Redevelopment Agency Repayment 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.

8. RESTRICTED NET ASSETS / FUND BALANCE

Restricted net assets consisted of the following at June 30, 2012:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Restricted for unspent categorical program revenues	\$ 6,219,634	\$ -
Restricted for special revenues	13,984,167	-
Restricted for debt service	14,257,512	-
Restricted for capital projects	8,978,058	-
Restricted for self-insurance	2,117,223	-
Restricted for scholarships	<u>-</u>	<u>855,445</u>
Total restricted net assets	<u>\$ 45,556,594</u>	<u>\$ 855,445</u>

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

8. RESTRICTED NET ASSETS / FUND BALANCE (Continued)

Fund balances, by category, at June 30, 2012 consisted of the following:

	General Fund	Capital Facilities Fund	Special Reserve Fund	All Non-Major Funds	Total
Nonspendable:					
Revolving cash fund	\$ 70,000	-	-	2,500	\$ 72,500
Prepaid expenses	923,799	-	116,119	3,485	1,043,403
Stores inventory	<u>1,101,475</u>	-	-	<u>327,285</u>	<u>1,428,760</u>
Subtotal nonspendable	<u>2,095,274</u>	-	<u>116,119</u>	<u>333,270</u>	<u>2,544,663</u>
Restricted:					
Unspent categorical revenues	6,219,634	-	-	-	6,219,634
Capital projects	-	26,239,098	53,663,823	23,804,354	103,707,275
Special revenue programs	-	-	-	13,650,897	13,650,897
Debt service	-	-	-	19,311,839	19,311,839
Subtotal restricted	<u>6,219,634</u>	<u>26,239,098</u>	<u>53,663,823</u>	<u>56,767,090</u>	<u>142,889,645</u>
Assigned:					
Redevelopment agency repayment	1,174,597	-	-	-	1,174,597
Reserve for operations	<u>35,584,952</u>	-	-	-	<u>35,584,952</u>
Subtotal Assigned	<u>36,759,549</u>	-	-	-	<u>36,759,549</u>
Unassigned:					
Designated for economic uncertainty	<u>5,932,942</u>	-	-	-	<u>5,932,942</u>
Total fund balances	<u>\$ 51,007,399</u>	<u>\$ 26,239,098</u>	<u>\$ 53,779,942</u>	<u>\$ 57,100,360</u>	<u>\$ 188,126,799</u>

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

9. 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 Q Street, Sacramento, California 95811.

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 2011-2012 was 10.923% 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, 2010, 2011 and 2012 were \$4,600,188, \$3,270,567 and \$5,089,028, 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.

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

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2011-2012 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, 2010, 2011 and 2012 were \$12,502,994, \$11,562,924 and \$11,562,625, respectively, and equal 100% of the required contributions for each year.

10. 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, 2011 (the latest information available) is as follows:

Total assets	\$ 60,461,646
Total liabilities	\$ 34,033,515
Total net assets	\$ 26,428,131
Total revenues	\$ 37,499,909
Total expenditures	\$ 36,773,385
Change in net assets	\$ 726,524

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.

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

10. JOINT POWERS AGREEMENTS (Continued)

School Project for Utility Rate Reduction (Continued)

Condensed audit information for SPURR for the year ended June 30, 2011 (the latest information available) is as follows:

Total assets	\$ 13,602,413
Total liabilities	\$ 7,404,396
Net assets	\$ 6,198,017
Total revenue	\$ 35,283,822
Total expenditures	\$ 34,848,206
Change in net assets	\$ 435,616

11. 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.

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 or results of operations.

12. SUBSEQUENT EVENT

On July 2, 2012, the District issued \$34,010,000 of Tax and Revenue Anticipation Notes (TRANS) maturing on February 1, 2013, with an interest rate of 2.00%, 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, 2012.

In October 2012, the District issued 2012 General Obligation Refunding Bonds totaling \$43,570,000. The Refunding Bonds are being issued to provide funds to refund all of the outstanding General Obligation Bonds, Election of 2000, Series 2001, Series 2003, Series 2004. The Refunding Bonds will bear an interest rate ranging from 3.00% to 5.00% and mature through January 1, 2029.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2012

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 142,498,592	\$ 147,037,584	\$ 146,660,577	\$ (377,007)
Local sources	<u>29,384,246</u>	<u>25,831,589</u>	<u>25,875,896</u>	<u>44,307</u>
Total revenue limit	<u>171,882,838</u>	<u>172,869,173</u>	<u>172,536,473</u>	<u>(332,700)</u>
Federal sources	37,284,440	62,689,272	45,899,198	(16,790,074)
Other state sources	69,580,431	80,454,352	79,464,792	(989,560)
Other local sources	<u>4,733,320</u>	<u>6,722,434</u>	<u>6,449,989</u>	<u>(272,445)</u>
Total revenues	<u>283,481,029</u>	<u>322,735,231</u>	<u>304,350,452</u>	<u>(18,384,779)</u>
Expenditures:				
Certificated salaries	132,874,486	136,853,149	135,828,638	1,024,511
Classified salaries	39,839,547	42,407,049	42,491,993	(84,944)
Employee benefits	65,153,005	71,823,373	71,955,790	(132,417)
Books and supplies	14,776,898	33,010,280	13,908,878	19,101,402
Contract services and operating expenditures	27,198,795	33,302,451	31,444,543	1,857,908
Capital outlay	18,689	29,298	803,343	(774,045)
Other outgo	150,000	153,456	153,456	
Debt service:				
Principal retirement	205,249	28,783	283,838	(255,055)
Interest	<u>6,746</u>	<u>1,117</u>	<u>24,575</u>	<u>(23,458)</u>
Total expenditures	<u>280,223,415</u>	<u>317,608,956</u>	<u>296,895,054</u>	<u>20,713,902</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,257,614</u>	<u>5,126,275</u>	<u>7,455,398</u>	<u>2,329,123</u>
Other financing sources (uses):				
Operating transfers in	1,073,824	2,138,214	1,114,494	(1,023,720)
Operating transfers out	(328,719)	(905,538)	(660,242)	245,296
Total other financing sources (uses)	<u>745,105</u>	<u>1,232,676</u>	<u>454,252</u>	<u>(778,424)</u>
Change in fund balance	4,002,719	6,358,951	7,909,650	1,550,699
Fund balance, July 1, 2011	<u>43,097,749</u>	<u>43,097,749</u>	<u>43,097,749</u>	
Fund balance, June 30, 2012	<u>\$ 47,100,468</u>	<u>\$ 49,456,700</u>	<u>\$ 51,007,399</u>	<u>\$ 1,550,699</u>

See accompanying notes to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2012

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%
6/30/2011	June 19, 2011	\$ -	\$75.9 million	\$75.9 million	0%	\$191 million	40%
6/30/2012	June 1, 2012	\$ -	\$74.1 million	\$74.1 million	0%	\$194 million	39%

See accompanying notes to required supplementary information,

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

Excess of expenditures over appropriations for the year ended June 30, 2012 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Classified salaries	\$ 84,944
Employee benefits	\$ 132,417
Capital outlay	\$ 774,045

These excesses are not in accordance with Education Code 42600.

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2012

	Charter School Fund (09)	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)	Deferred Maintenance Fund (14)	Building Fund (21)	County School Facilities Fund (35)	Mello-Roos Fund (49)	Bond Interest and Redemption Fund (51)	Tax Override Fund (53)	Debt Service Fund (56)	Total
ASSETS												
Cash in County Treasury	\$ 93,139	\$ 408,087	\$ 133,050	\$ 9,586,804	\$ -	\$ -	\$ 25,272	\$ 1,519	\$ 14,240,985	\$ 13,155	\$ 3,366	\$ 24,505,377
Cash in County Treasury restricted for capital projects	-	-	-	-	-	24,872,911	-	-	-	-	-	24,872,911
Cash on hand and in banks	-	2,000	-	448	-	-	-	-	-	-	-	2,448
Cash in revolving fund	-	-	-	2,500	-	-	-	-	-	-	-	2,500
Cash with Fiscal Agent	-	-	-	-	-	-	-	-	-	-	5,054,327	5,054,327
Receivables	4,528,934	1,721,513	116,334	1,660,572	-	13,102	654	-	-	6	-	8,041,115
Prepaid expenditures	3,485	-	-	-	-	-	-	-	-	-	-	3,485
Store inventory	-	-	-	327,285	-	-	-	-	-	-	-	327,285
Due from other funds	763,948	6,100	50,736	8,497	-	2,730	-	-	-	-	-	832,011
Total assets	\$ 5,389,506	\$ 2,137,700	\$ 300,120	\$ 11,586,106	\$ -	\$ 24,888,743	\$ 25,926	\$ 1,519	\$ 14,240,985	\$ 13,161	\$ 5,057,693	\$ 63,641,459

LIABILITIES AND FUND BALANCES

Liabilities:												
Accounts payable	\$ 563,445	\$ 71,669	\$ 36,967	\$ 554,607	\$ -	\$ 1,111,834	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,338,522
Deferred revenue	84,025	595	16,193	5,456	-	-	-	-	-	-	-	106,269
Due to other funds	3,594,415	285,660	209,244	6,989	-	-	-	-	-	-	-	4,096,308
Total liabilities	4,241,885	357,924	262,404	567,052	-	1,111,834	-	-	-	-	-	6,541,099
Fund balances:												
Nonspendable	3,485	-	-	329,785	-	-	-	-	-	-	-	333,270
Restricted	1,144,136	1,779,776	37,716	10,689,269	-	23,776,909	25,926	1,519	14,240,985	13,161	5,057,693	56,767,090
Total fund balances	1,147,621	1,779,776	37,716	11,019,054	-	23,776,909	25,926	1,519	14,240,985	13,161	5,057,693	57,100,360
Total liabilities and fund balances	\$ 5,389,506	\$ 2,137,700	\$ 300,120	\$ 11,586,106	\$ -	\$ 24,888,743	\$ 25,926	\$ 1,519	\$ 14,240,985	\$ 13,161	\$ 5,057,693	\$ 63,641,459

STOCKTON UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2012

	Charter School Fund (09)	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)	Deferred Maintenance Fund (14)	Building Fund (21)	County School Facilities Fund (35)	Mello-Roos Fund (49)	Bond Redemption Fund (51)	Tax Override Fund (53)	Debt Service Fund (56)	Total
Revenues:												
Revenue limit sources:												
State apportionment	\$ 10,680,045	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,680,045
Federal sources	150,000	850,940	2,092	16,074,122	-	-	-	-	385,940	-	-	17,463,094
Other state sources	1,719,906	3,427,850	3,506,069	1,328,244	-	-	19,161,274	-	287,716	-	-	29,431,059
Other local sources	167,175	133,698	525	533,674	564	46,375	904	2	19,280,317	31	252,713	20,415,978
Total revenues	<u>12,717,126</u>	<u>4,412,488</u>	<u>3,508,686</u>	<u>17,936,040</u>	<u>564</u>	<u>46,375</u>	<u>19,162,178</u>	<u>2</u>	<u>19,953,973</u>	<u>31</u>	<u>252,713</u>	<u>77,990,176</u>
Expenditures:												
Certificated salaries	5,932,218	1,449,245	1,249,659	-	-	-	-	-	-	-	-	8,631,122
Classified salaries	680,827	347,644	996,372	4,836,752	-	-	-	-	-	-	-	6,861,595
Employee benefits	2,347,769	630,103	1,049,537	3,059,005	-	-	-	-	-	-	-	7,086,414
Books and supplies	692,482	210,402	105,707	6,123,688	-	551,790	-	-	-	-	-	7,684,069
Contract services and operating expenditures	2,333,954	308,513	169,769	742,198	72,194	345,356	-	-	-	-	-	3,971,984
Capital outlay	269,596	18,477	-	383,626	-	4,088,147	-	-	-	-	-	4,759,846
Debt service:												
Principal retirement	83,333	-	-	329,211	-	-	-	-	6,551,000	-	1,635,000	8,598,544
Interest	678	-	-	12,773	-	-	-	-	11,915,155	-	146,276	12,074,882
Total expenditures	<u>12,340,857</u>	<u>2,964,384</u>	<u>3,571,044</u>	<u>15,487,253</u>	<u>72,194</u>	<u>4,985,293</u>	<u>-</u>	<u>-</u>	<u>18,466,155</u>	<u>-</u>	<u>1,781,276</u>	<u>59,668,456</u>
Excess (deficiency) of revenues over (under) expenditures	<u>376,269</u>	<u>1,448,104</u>	<u>(62,358)</u>	<u>2,448,787</u>	<u>(71,630)</u>	<u>(4,938,918)</u>	<u>19,162,178</u>	<u>2</u>	<u>1,487,818</u>	<u>31</u>	<u>(1,528,563)</u>	<u>18,321,720</u>
Other financing sources (uses):												
Operating transfers in	615,470	-	44,772	-	-	12,303,074	-	-	-	-	1,416,268	14,379,584
Operating transfers out	(214,764)	(93,221)	(149,616)	(656,893)	-	-	(19,161,274)	-	(1,416,268)	-	-	(21,692,036)
Total other financing sources (uses)	<u>400,706</u>	<u>(93,221)</u>	<u>(104,844)</u>	<u>(656,893)</u>	<u>-</u>	<u>12,303,074</u>	<u>(19,161,274)</u>	<u>-</u>	<u>(1,416,268)</u>	<u>-</u>	<u>1,416,268</u>	<u>(7,312,452)</u>
Net change in fund balances	776,975	1,354,883	(167,202)	1,791,894	(71,630)	7,364,156	904	2	71,550	31	(112,295)	11,009,268
Fund balances, July 1, 2011	370,646	424,893	204,918	9,227,160	71,630	16,412,753	25,022	1,517	14,169,435	13,130	5,169,988	46,091,092
Fund balances, June 30, 2012	<u>\$ 1,147,621</u>	<u>\$ 1,779,776</u>	<u>\$ 37,716</u>	<u>\$ 11,019,054</u>	<u>\$ -</u>	<u>\$ 23,776,909</u>	<u>\$ 25,926</u>	<u>\$ 1,519</u>	<u>\$ 14,240,985</u>	<u>\$ 13,161</u>	<u>\$ 5,057,693</u>	<u>\$ 57,100,360</u>

STOCKTON UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2012

Stockton Unified School District was established on July 1, 1936. The District operates 42 elementary schools, 1 intermediate alternative school and 10 high schools, including Weber Institute of Technology, Stockton Early College Academy, Stockton Alternative High School, Merlo Institute of Environmental Technology, Pacific Law Academy and Stockton Health Careers Academy. 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>
Sara L. Cazares	President	2014
Gloria Allen	Vice President	2012
Sal Ramirez	Member	2014
Jose A. Morales	Member	2012
Angel Jimenez, Jr.	Member	2012
David Varela	Member	2014
Steve Smith	Member	2014

ADMINISTRATION

Carl Toliver
Superintendent*

Julie Penn
Deputy Superintendent

Wayne Martin
Chief Business Official

Dr. Kirk Nicholas
Assistant Superintendent, Curriculum and Professional Development

Daniel Wright
Assistant Superintendent, Elementary Education

Mark Hagemann
Assistant Superintendent, Secondary Education

Craig Wells
Assistant Superintendent, Human Resources

*Effective June 18, 2012, Dr. Steven Lowder became Superintendent of Stockton Unified School District.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2012

	<u>Second Period Report (Original)</u>	<u>Second Period Report (Audited)</u>	<u>Annual Report</u>
DISTRICT			
Elementary:			
Kindergarten	2,999	2,999	3,005
First through Third	8,185	8,183	8,175
Fourth through Eighth	12,391	12,390	12,375
Home and Hospital	1	1	1
Special Education	<u>840</u>	<u>840</u>	<u>844</u>
Total Elementary	<u>24,416</u>	<u>24,413</u>	<u>24,400</u>
Secondary:			
Regular Classes	7,597	7,597	7,492
Special Education	466	466	458
Compulsory Continuation Education	158	158	155
Home and Hospital	11	11	12
Opportunity School	<u>19</u>	<u>19</u>	<u>21</u>
Total Secondary	<u>8,251</u>	<u>8,251</u>	<u>8,138</u>
	<u><u>32,667</u></u>	<u><u>32,664</u></u>	<u><u>32,538</u></u>
CHARTER SCHOOL - CLASSROOM BASED			
<u>Nightingale Elementary Charter School</u>			
Elementary:			
Kindergarten	40	40	40
First through Third	107	107	106
Fourth through Eighth	<u>136</u>	<u>136</u>	<u>135</u>
<u>Pittman Elementary Charter School</u>			
Elementary:			
Kindergarten	76	76	75
First through Third	215	215	212
Fourth through Eighth	<u>274</u>	<u>274</u>	<u>272</u>
Subtotal Classroom Based	<u>848</u>	<u>848</u>	<u>840</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
(Continued)
For the Year Ended June 30, 2012

	<u>Second Period Report (Original)</u>	<u>Second Period Report (Audited)</u>	<u>Annual Report</u>
CHARTER SCHOOL - CLASSROOM BASED (Continued)			
<u>Primary Years Academy of International Education</u>			
Elementary:			
Kindergarten	49	49	49
First through Third	97	97	97
Fourth through Eighth	<u>46</u>	<u>46</u>	<u>46</u>
<u>Stockton Health Careers Academy</u>			
Secondary:			
Regular classes	<u>119</u>	<u>119</u>	<u>118</u>
<u>Pacific Law Academy</u>			
Secondary:			
Regular classes	<u>201</u>	<u>201</u>	<u>201</u>
<u>Stockton Unified Early College Academy</u>			
Secondary:			
Regular classes	<u>349</u>	<u>349</u>	<u>345</u>
Total Classroom Based	<u><u>1,709</u></u>	<u><u>1,709</u></u>	<u><u>1,696</u></u>
CHARTER SCHOOL - NON-CLASSROOM BASED			
<u>Stockton Alternative High</u>			
Secondary:			
Regular classes	<u>195</u>	<u>195</u>	<u>194</u>
Total Non-classroom Based	<u><u>195</u></u>	<u><u>195</u></u>	<u><u>194</u></u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2012

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
DISTRICT					
Kindergarten	36,000	31,500	54,000	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	65,020	180	In Compliance
Grade 10	64,800	64,980	65,020	180	In Compliance
Grade 11	64,800	64,980	65,020	180	In Compliance
Grade 12	64,800	64,980	65,020	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 SCHOOLS

Nightingale Elementary Charter School

Kindergarten	36,000	N/A	54,000	180	In Compliance
Grade 1	50,400	N/A	54,000	180	In Compliance
Grade 2	50,400	N/A	54,000	180	In Compliance
Grade 3	50,400	N/A	54,000	180	In Compliance
Grade 4	54,000	N/A	54,000	180	In Compliance
Grade 5	54,000	N/A	54,000	180	In Compliance
Grade 6	54,000	N/A	54,000	180	In Compliance
Grade 7	54,000	N/A	56,700	180	In Compliance
Grade 8	54,000	N/A	56,700	180	In Compliance

Pittman Elementary Charter School

Kindergarten	36,000	N/A	54,000	180	In Compliance
Grade 1	50,400	N/A	54,000	180	In Compliance
Grade 2	50,400	N/A	54,000	180	In Compliance
Grade 3	50,400	N/A	54,000	180	In Compliance
Grade 4	54,000	N/A	54,000	180	In Compliance
Grade 5	54,000	N/A	54,000	180	In Compliance
Grade 6	54,000	N/A	54,000	180	In Compliance
Grade 7	54,000	N/A	56,700	180	In Compliance
Grade 8	54,000	N/A	56,700	180	In Compliance

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

(Continued)

For the Year Ended June 30, 2012

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2011-12 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
CHARTER SCHOOLS (Continued)					
<u>Primary Years Academy of International EducationI</u>					
Kindergarten	36,000	N/A	54,000	180	In Compliance
Grade 1	50,400	N/A	54,000	180	In Compliance
Grade 2	50,400	N/A	54,000	180	In Compliance
Grade 3	50,400	N/A	54,000	180	In Compliance
Grade 4	54,000	N/A	54,000	180	In Compliance
Grade 5	54,000	N/A	54,000	180	In Compliance
Grade 6	54,000	N/A	54,000	180	In Compliance
<u>Stockton Health Careers Academy</u>					
Grade 9	64,800	N/A	64,800	180	In Compliance
Grade 10	64,800	N/A	64,800	180	In Compliance
Grade 11	64,800	N/A	64,800	180	In Compliance
Grade 12	64,800	N/A	64,800	180	In Compliance
<u>Pacific Law Academy</u>					
Grade 9	64,800	N/A	64,800	180	In Compliance
Grade 10	64,800	N/A	64,800	180	In Compliance
Grade 11	64,800	N/A	64,800	180	In Compliance
Grade 12	64,800	N/A	64,800	180	In Compliance
<u>Stockton Unified Early College Academy</u>					
Grade 9	64,800	N/A	64,800	180	In Compliance
Grade 10	64,800	N/A	64,800	180	In Compliance
Grade 11	64,800	N/A	64,800	180	In Compliance
Grade 12	64,800	N/A	64,800	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, 2012

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	13379	\$ 6,391,567
84.173	Special Education: IDEA Preschool Grants, Part B, Section 619	13430	109,615
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	252,070
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Sec 619	13431	4,982
84.391	ARRA: Special Education, IDEA Part B, Sec 611, Basic Local Assistance	15003	1,332,373
84.391	ARRA: Special Education, IDEA Part B, Sec 611, Preschool Local Entitlement	15002	349,501
84.392	ARRA: Special Education, IDEA, Part B, Sec 619, Preschool Grants	15000	<u>135,655</u>
	Subtotal Special Education Cluster		<u>8,575,763</u>
	Title I Cluster:		
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	14329	19,519,200
84.389	ARRA: Title I, Part A, Basic Grants Low-Income and Neglected	15005	2,212,077
84.010	NCLB: Title I, Part D, Subpart 2, Local Delinquent Programs	14357	191,236
84.389	ARRA: Title I, Part D, Local Delinquent Programs	15009	<u>26,951</u>
	Subtotal Title I Cluster		<u>21,949,464</u>
	Enhancing Education Through Technology Cluster:		
84.318	NCLB: Title II, Part D, Enhancing Education through Technology (EETT), Formula Grants	14334	153,344
84.386	ARRA: Title II, Part D, Enhancing Education through Technology	15019	<u>272,124</u>
	Subtotal Enhancing Education Through Technology Cluster		<u>425,468</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2012

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
84.002A	Adult Education: Adult Basic Education and Education State Leadership	14508	\$ 376,912
84.002	Adult Education: State Leadership Projects	13970	75,000
84.002	Adult Education: Adult Secondary Education	13978	137,216
84.002A	Adult Education: English Literacy Civics Education Local Grant	14109	<u>261,812</u>
	Subtotal Adult Education Cluster		<u>850,940</u>
84.186	NCLB: Title IV, Part A, Safe and Drug Free Schools and Communities, Formula Grants	14347	100,026
84.186	NCLB: Title IV, Part A, Safe and Drug Free Schools and Communities (SDFSC) - Technical Assistance	14348	<u>239,191</u>
	Subtotal NCLB, Title IV, Part A Cluster		<u>339,217</u>
84.181	Special Education IDEA Early Intervention, Grants, Part C	23761	154,074
84.350A	Transition to Teaching Program	-	119,645
84.215	Smaller Learning Communities	-	500,142
84.196	NCLB: Title X, McKinney Vento Homeless Children Assistance Grants	14332	38,406
84.060	Indian Education	10011	450,141
84.367	NCLB: Title I, School Improvement Grant (SIG) Cohort 2 L/A	15183	156,713
84.377	NCLB: Title II, Part A Improving Teacher Quality Local Grants	14341	1,857,152
84.282A	NCLB: Title V, Part B, Public Charter Schools Grants	14941	150,000
84.365	NCLB Title III, Limited English Proficiency	14346	1,119,606
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	419,468
84.184	Safe and Supportive Schools Programmatic Intervention	15164	72,015
84.287	NCLB: Title IV, Part B, 21st Century Community Learning Centers Program	14349	1,758,360
84.330B	NCLB: Title I, Part G, Advanced Placement (AP) Test Fee Reimbursement Program	14,831	56,634
84.410	Education Jobs Funds	25152	<u>6,878,186</u>
	Total U.S. Department of Education		<u>45,871,394</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2012

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.778	Medi-Cal Billing Option	10013	\$ 456,228
93.501	Affordable Care Act (ACA) Grants for School-Based Health Centers Capital Program	-	<u>44,383</u>
	Total U.S. Department of Health and Human Services		<u>500,611</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.558	National School Lunch Program	13529	6,909
10.555	National School Lunch Program (NSL Sec. 11)	13396	<u>15,802,161</u>
	Total U.S. Department of Agriculture		<u>15,809,070</u>
<u>U.S. Department of Justice</u>			
16.579	Gang Prevention	-	<u>108,039</u>
<u>U.S. Department of Defense</u>			
12.357	ROTC Federal Funding	-	<u>75,777</u>
	Total Federal Programs		<u>\$ 62,364,891</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, 2012

	<u>Debt Service Fund</u>
June 30, 2012 Unaudited Actual Financial Report Ending Fund Balance.	\$ 3,787,250
Audit adjustment to properly reflect cash with fiscal agent held for repayment of Qualified School Construction Bonds.	<u>1,270,443</u>
June 30, 2012 Audit Financial Statements Ending Balance	<u><u>\$ 5,057,693</u></u>

There were no audit adjustments proposed to any other 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, 2012
(UNAUDITED)

	(Budget)			
	2013	2012	2011	2010
<u>General Fund</u>				
Revenues and other financing sources	<u>\$ 291,296,871</u>	<u>\$ 305,464,946</u>	<u>\$ 302,049,911</u>	<u>\$ 314,444,775</u>
Expenditures	298,384,995	296,895,054	296,946,780	323,686,833
Other uses and transfers out	<u>110,631</u>	<u>660,242</u>	<u>1,487,860</u>	<u>623,126</u>
Total outgo	<u>298,495,626</u>	<u>297,555,296</u>	<u>298,434,640</u>	<u>324,309,959</u>
Change in fund balance	<u>\$ (7,198,755)</u>	<u>\$ 7,909,650</u>	<u>\$ 3,615,271</u>	<u>\$ (9,865,184)</u>
Ending fund balance	<u>\$ 43,808,644</u>	<u>\$ 51,007,399</u>	<u>\$ 43,097,749</u>	<u>\$ 39,482,478</u>
Available reserves	<u>\$ 5,951,612</u>	<u>\$ 5,932,942</u>	<u>\$ 5,953,762</u>	<u>\$ 7,273,085</u>
Designated for economic uncertainties	<u>\$ 5,951,612</u>	<u>\$ 5,932,942</u>	<u>\$ 5,953,762</u>	<u>\$ 6,472,430</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 800,655</u>
Available reserves as percentages of total outgo	<u>2.00%</u>	<u>2.00%</u>	<u>2.00%</u>	<u>2.24%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 400,476,004</u>	<u>\$ 414,162,390</u>	<u>\$ 419,387,338</u>	<u>\$ 368,026,022</u>
Average daily attendance at P-2, excluding Adult and Charter School	<u>32,125</u>	<u>32,664</u>	<u>33,218</u>	<u>34,206</u>

The General Fund fund balance has increased by \$1,659,737 over the past three years. The fiscal year 2012-2013 budget projects a decrease of \$7,198,755. For a district this size, the State of California recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2012, the District has met this requirement.

The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the fiscal year ending June 30, 2013.

Total long-term liabilities have increased by \$46,136,368 over the past two years, due primarily to the issuance of General Obligation Bonds, Charter School Revolving Loan and increases in the OPEB liability.

Average daily attendance has decreased by 1,542 over the past two years. The District anticipates a decrease of 539 ADA for the 2012-2013 fiscal year.

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2012

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
Nightingale Elementary Charter School	Included in Charter Fund
Pittman Elementary Charter School	Included in Charter Fund
Primary Years Academy of International Education	Included in Charter Fund
Health Careers Academy	Included in Charter Fund
Pacific Law Academy	Included in Charter Fund
Stockton High School	Included in Charter Fund
Stockton Unified Early College Academy	Included in Charter Fund
Aspire Langston Hughes Academy	Separate Report
Aspire Rosa Parks Academy	Separate Report
California Virtual Academy at San Joaquin	Separate Report
Dr. Lewis Dolphin Stallworth Sr. Charter Schools	Separate Report
Stockton Collegiate International Elementary Charter School	Separate Report
Stockton Collegiate International Secondary Charter School	Separate Report
TEAM Charter School	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, 2012.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 63,362,292
Add: Medi-Cal Billing Option from prior year awards	93.778	129,858
NCLB: Title I, Part A Basic Grants Low Income and Neglected funds spent in excess of award	84.010	365,056
NSLP Funds spent from prior year awards	10.558	4,817
Less: NSLP funds received in excess of expenditures	10.555	(271,961)
Interest subsidy for qualified school construction bonds	-	(385,940)
Medi-Cal Administrative Activities not spent	93.778	<u>(839,231)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 62,364,891</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 - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2012-2013 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

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, 2012, the District did not adopt this program.

**INDEPENDENT AUDITORS' 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, 2012. 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>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	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
Juvenile Court Schools	8	No, see below
Exclusion of Pupils - Pertussis Immunization	2	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

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	No, see below
Contemporaneous Records of Attendance, for charter schools	3	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	4	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 and Juvenile Court Schools because the District did not offer these programs in the current year.

The 2011-2012 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, 2012. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2011-2012 Audit Guide relating to the comparison of tested data from the 2011-2012 fiscal year to the 2011-2012 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.

As described in Finding 2012-03 in the accompanying Schedule of Audit Findings and Questioned Costs, Stockton Unified School District did not comply with the compliance requirements regarding Attendance Reporting. Compliance with such requirements is necessary, in our opinion, for Stockton Unified School District to comply with state laws and regulations applicable to Attendance Reporting.

In our opinion, except for the noncompliance with Attendance Reporting identified in the Schedule of Audit Findings and Questioned Costs as Finding 2012-03, Stockton Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2012. Further, based on our examination, for items not tested, nothing came to our attention to indicate the Stockton Unified School District had not complied with the state laws and regulations.

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.

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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2012

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

Board of 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, 2012, and have issued our report thereon dated December 13, 2012. 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

Management of Stockton Unified School District is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2012-01, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness. We also identified certain matters involving internal control that we have communicated to management as identified in the Schedule of Audit Findings and Questioned Costs as Finding 2012-02.

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. We consider the deficiency described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2012-01 to be a material weakness.

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 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.

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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON 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 Stockton Unified School District's with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Stockton Unified School District's major federal programs for the year ended June 30, 2012. Stockton Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants 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. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Stockton Unified School District is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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.

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 was not designed to 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2012

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? X Yes 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 auditors' 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>
84.027, 84.027A, 84.173, 84.173A, 84.391, 84.392 84.010, 84.389 84.410 10.555	Special Education Cluster (including ARRA) NCLB: Title I Cluster (including ARRA) Education Jobs Funds National School Lunch Program

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 1,870,947

Auditee qualified as low-risk auditee? X Yes No

STATE AWARDS

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

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-01 MATERIAL WEAKNESS - LONG-TERM LIABILITIES (30000)

Criteria

Internal Control - Recording of Financial Activity - Departure from GAAP

Condition

The General Obligation Bonds, Election of 2008, Series B, Qualified School Construction Bonds, require payments made by the District to be held and set aside by a fiscal agent until the debt liability is liquidated at a later date. The district misinterpreted this requirement and recorded the payment in the accounting records as a reduction of the debt liability. The actual cash payment was received and is presently held by the fiscal agent.

Effect

The District has understated cash with fiscal agent and overstated debt service expenditures in the Debt Service Fund.

Cause

Adequate internal control procedures were not in place to identify the misstatement.

Fiscal Impact

Debt Service Fund cash with fiscal agent and ending fund balance were understated by \$1,270,443.

Recommendation

The District should establish internal control procedures to ensure that financial activities relating to long-term debt are recorded properly and allow for proper financial statement presentation. Internal control procedures should also be established to allow for an oversight and monitoring function on the financial activities performed on the District's behalf by related agencies.

Corrective Action Plan

The District has established a committee to review payments on long-term debt and ensure that payments are properly recorded. The committee will establish internal control procedures to monitor the financial activities performed for the District by related agencies

The District will consult, as necessary, with the independent auditors or the County Office of Education regarding long-term debt related questions.

The District is considering the monitoring of long-term debt issuances through the District's computerized financial system to have better control over this aspect of the District's financial activities.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

2012 - 02 DEFICIENCY - ASSOCIATED STUDENT BODY (30000)

Criteria

Education Code Section 48930 (and California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

At Franklin High School for testing of the Associate Student Body financial activity, we noted the following:

- No formal review of student store inventories to determine propriety as to character and quantities.
- Profit and loss statements are not produced for the student store until year end.
- Monthly reports of financial activity are not sent to individual clubs and/or ASB advisors.

At Harrison Elementary School for testing of the Associate Student Body financial activity, we noted the following:

- The prenumbered ripoff strip for the cash collection bag sent the District did not include the date, amount, or who counted the cash.

At Wilson Elementary School for testing of the Associate Student Body financial activity, we noted the following:

- No notation on the invoice or other supporting documentation indicating receipt of materials or services.

Effect

ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

- Student store inventories should be reviewed periodically to determine propriety as to character and quantities.
- Student store profit and loss statements should be produced on a quarterly basis and these profit and loss statements should be reviewed by an individual with the proper authority.
- Monthly reports should be sent to individual clubs and/or the ASB advisors in charge of those clubs.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2012

2012 - 02 DEFICIENCY - ASSOCIATED STUDENT BODY (30000) (Continued)

Recommendation (Continued)

- All cash collected should be dually counted and noted on the prenumbered rip-off strips for the cash collection bags by the individuals performing the dual custody cash-count, the amount of cash counted, and the date the cash was counted.
- All materials or services received should be counted to ensure that the goods or services ordered are the goods and services received. Specifically, the appropriate personnel should indicate receipt on the vendor's invoice or packing slip before payment is made.

Corrective Action Plan

The District provided Associated Student Body training to school site clerical staff on July 31, 2012. Training included the review of internal control procedures for cash receipts and cash disbursements, best business practices, the operation of a student store, and the review of the exceptions noted by the auditors during their testing. Site specific training is also provided as needed. The District recommends school sites utilize the 2012 Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference prepared by the Fiscal Crisis and Management Assistance Team (FCMAT) to better understand accounting procedures for the Associated Student Body account. The District's Internal Audit staff welcomes questions from school sites on internal control procedures and site specific matters.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

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, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2012 - 03 DEFICIENCY - ATTENDANCE REPORTING (10000)

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Section 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.

Condition

- At Harrison Elementary two students were improperly included for a total misstatement of 2 days.
- At Wilson Elementary one student was improperly included for a total misstatement of 1 day.

Effect

The effect of this finding is an extrapolated overstatement of 1.76 ADA.

Cause

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

Fiscal Impact

The fiscal impact of the error is \$11,514.

Recommendation

The District should revise and resubmit the Second Period Report of Attendance removing the disallowed attendance.

Corrective Action Plan

The District adjusted the Second Period Report of Attendance prior to closing the books for the fiscal year ended June 30, 2012. The District holds monthly training meetings with school site staff working on attendance accounting to review the use of the District's electronic attendance system, internal control and recordkeeping procedures, and review of timelines for the submission of school site attendance reports.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2011-01</p> <p>At various school sites selected for testing of the Associated Student Body financial activity, we noted the following:</p> <ul style="list-style-type: none"> • Deposit slips are not signed by the site Principal to evidence performance of review. • No tally or cash count sheet is prepared to support the collection of cash receipts. • Revenue Potential Form was not used to formally document the approval of new fundraising activities. • Monthly student store sales report had no evidence of review by the ASB Coordinator. <p>We recommend the school sites with ASB activity implement the following control procedures:</p> <ul style="list-style-type: none"> • Review of deposit slips should be formally documented by the site Principal. • Tally sheets or cash count sheets should be used to record the amount of cash receipts. • Approval of new revenue producing activities should be formally documented on the Revenue Potential Form by the site Principal. • Review of store sales report should be formally documented by the ASB Coordinator. <p>Documentation of review of the items listed above should include a signature or initial and date the document was reviewed.</p>	<p>Partially implemented.</p>	<p>See current year finding 2012-02.</p>

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

Year Ended June 30, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2011-02</p> <p>During our performance of the regular and special day testing we noted the following:</p> <ul style="list-style-type: none"> • At Hamilton Elementary, one student was marked present on 8/13/10; however, per inspection of Log Sheet, parent had called in to excuse the student's absence for that date. Resulting in a misstatement of 1 day. • At Huerta Elementary, one student was marked present on 9/16/10; however, per inspection of Log Sheet, parent had called in to excuse the student's absence for that date. Resulting in a misstatement of 1 day. • At Pulliam Elementary, a student's parent had called in to excuse absence for 1/10/11 – 1/14/11. However, the student was only marked absent for 1/12/11 and 1/14/11. Resulting in a misstatement of 3 days. <p>The District should revise the Second Period Report of Attendance removing the disallowed ADA</p>	<p>Partially implemented.</p>	<p>See current year finding 2012-03.</p>