

**STOCKTON UNIFIED SCHOOL DISTRICT**

**COUNTY OF SAN JOAQUIN  
STOCKTON, CALIFORNIA**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED JUNE 30, 2002**



**Gilbert Associates, Inc.**  
CPAs and Advisors

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**YEAR ENDED JUNE 30, 2002**

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STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2002

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## **FINANCIAL SECTION**



**Gilbert Associates, Inc.**  
CPAs and Advisors

**INDEPENDENT AUDITOR'S REPORT**

**Board of Education  
Stockton Unified School District  
Stockton, California**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stockton Unified School District (the District) as of and for the year ended June 30, 2002, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2002.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Stockton Unified School District, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 and the budgetary comparison information on page 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2002 on our consideration of the District's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Stockton Unified School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. The accompanying supplementary information is not a required part of the basic financial statements and is presented for purposes of additional analysis as required by the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed by the State Controller. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**

**October 9, 2002**



## Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2002, 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 2002 fiscal year was \$300.1 million. Expenditures totaled \$296.6 million. Net assets increased by \$3.5 million. This increase in net assets represents a 2.46% increase over the prior year.
- Capital assets, net of depreciation, increased by \$18.9 million. Two parcels of land were purchased for the construction of new schools. Land was also purchased to allow an existing K – 6 elementary school to expand its facilities and add the 7<sup>th</sup> grade. In addition, a site was purchased to house the district's charter school.
- Construction was completed for the Delores Huerta Elementary School. Final construction costs totaled \$6.8 million. The school began operation at the start of the 2001/2002 school year.
- Construction and modernization work continued at a number of district school sites. Total costs expended on project work in progress totaled \$12.8 million at the end of the fiscal year.
- Long-term debt increased by \$23.9 million due, in part, to the issuance of \$22.8 million in General Obligation Bonds. The bonds were given a credit rating of "AAA." The proceeds from the bonds will be used for construction of new schools and the modernization of existing schools.

### 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.

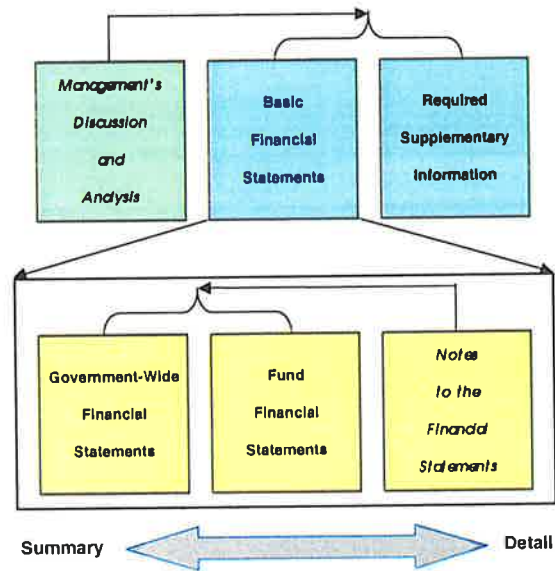
The fund financial statements can be further broken down into three types:

- *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 diagram presented here shows how the various parts of this annual financial report are arranged and related to one another.



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
<b>Scope</b>	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.
<b>Required financial statements</b>	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
<b>Accounting basis and measurement focus</b>	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
<b>Type of asset/liability information</b>	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
<b>Type of inflow/outflow information</b>	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 explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.
  - *Internal Service funds* are used to report activities that provide supplies and services for the district's other programs and activities. The district currently has two internal service funds – the self-insurance fund and the retiree benefits fund.
- *Fiduciary funds* – The district is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the district's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the government-wide financial statements because the district cannot use these assets to finance operations.

## Financial Analysis of the District as a Whole

The computation of district net assets at June 20, 2002, is presented by category in the table below:

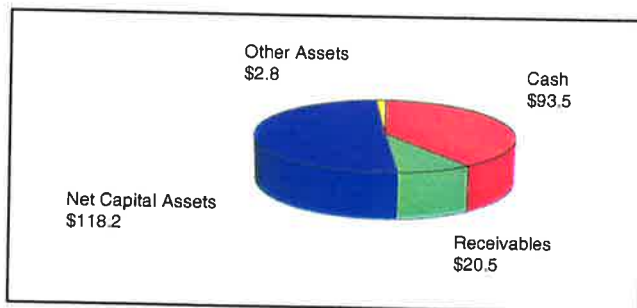
	Government-Wide Activities
<b>Current and other assets:</b>	
Cash	\$ 93,462,048
Receivables	20,470,067
Inventories	1,704,165
Other current assets	1,207,273
Capital assets, net of depreciation	118,200,964
<b>Total assets</b>	<b>235,044,517</b>
<b>Long-term debt outstanding</b>	
Other liabilities	52,200,765
<b>Total liabilities</b>	<b>42,692,076</b>
<b>Net assets:</b>	
Invested in capital assets, net of related debt	74,979,468
Restricted	25,566,745
Unrestricted	39,605,463
<b>Total Net Assets</b>	<b>\$ 140,151,676</b>

Total Net Assets increased by \$3.5 million during the 2002 fiscal year. Capital assets, net of depreciation, increased by a total of \$18.9 million. Long-term debt increased by \$23.9 million with the issuance of General Obligation bonds in July of 2001. Both of these areas are discussed in more detail later in this Management Discussion and Analysis report.

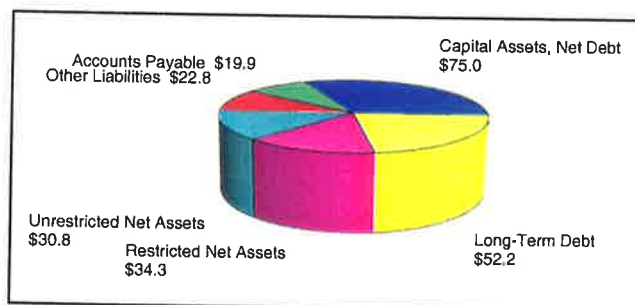
In future years, this table will compare the district's net assets for the audit year with the most recent prior year and an analysis of the differences between the years will be made. With this being the first year of reporting the district's financial results in this format, a computation of the district's Total Net Assets for the 2001 fiscal year has not been made, making a comparison between the two years not possible.

Presented below is a graph depicting assets by category, along with a graph displaying liabilities and net assets by category.

**Assets by Category**  
(in millions)



**Liabilities and Net Assets by Category**  
(in millions)

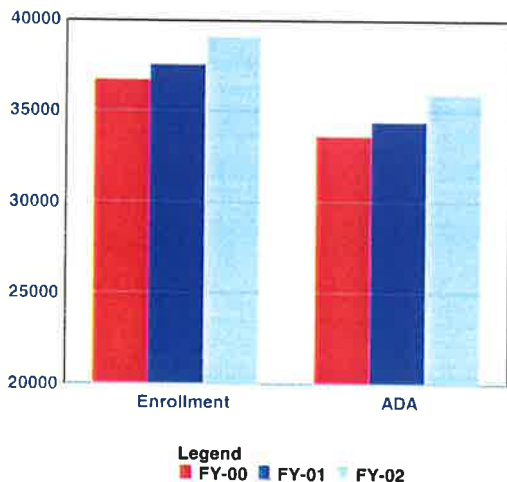


## Changes in Net Assets

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

	Government-Wide Activities
<b>Revenues – Program:</b>	
Charges for Services	\$ 4,132,478
Operating Grants and Contributions	101,703,744
Capital Grants and Contributions	440,000
<b>Revenues – General:</b>	
Unrestricted Federal and State Aid	140,636,316
Taxes Levied for General Purposes	45,137,980
Taxes Levied for Debt Service	1,742,817
Interest and Investment Earnings	3,122,972
Other General Revenues	3,212,474
<b>Total Revenues</b>	<b>300,128,781</b>
<b>Expenses:</b>	
Instruction	178,166,908
Pupil and Instruction-related Services	71,131,707
General Administration	13,041,722
Plant Services	30,791,799
Other Expenses	3,508,435
<b>Total Expenses</b>	<b>296,640,571</b>
<b>Increase in Net Assets</b>	<b>3,488,210</b>
<b>Net Assets, Beginning of the Year</b>	<b>136,663,466</b>
<b>Net Assets, End of the Year</b>	<b>\$140,151,676</b>

For the 2002 fiscal year, total district revenues were \$300.1 million. Total district expenses were \$296.6 million. The difference, \$3.5 million is the increase in net assets, bringing the total net assets at June 30, 2002 to \$140.2 million.



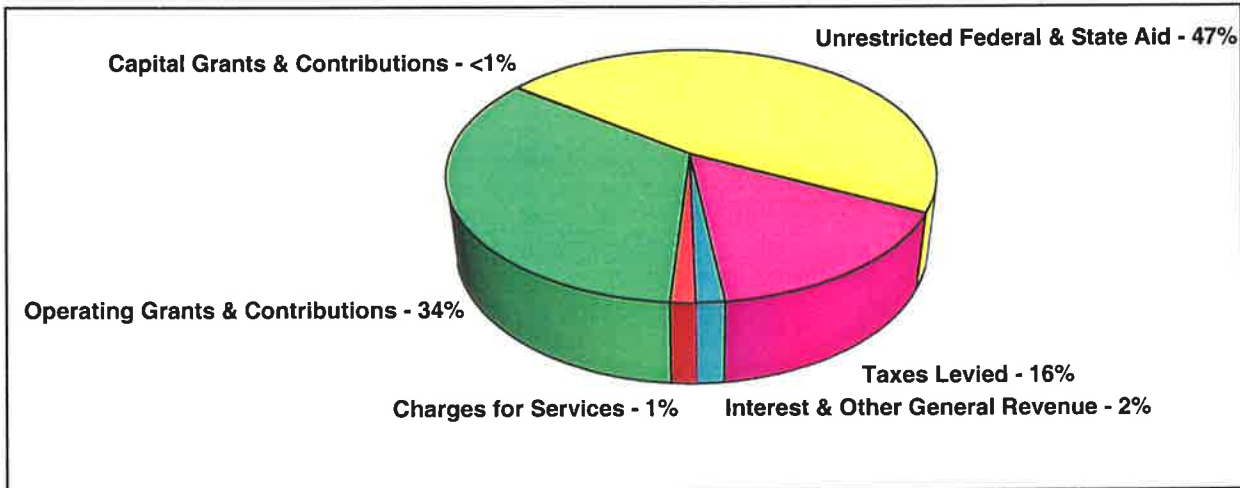
A main source of revenue for the district is the State Aid portion of the Revenue Limit, included in the Unrestricted Federal and State Aid total. The Revenue Limit is based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days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

District enrollment continued to grow during the fiscal year. The graph presented to the left shows the growth in second month enrollment and Period 2 (P-2) ADA for fiscal years 2000, 2001, and 2002. Total second month enrollment in Grades K – 12 for the 2002 fiscal year was 39,112 students, an increase of 1,555 students from the prior year. The primary area of enrollment growth was at the elementary school (Grades K – 6) level, where enrollment increased by 740 students.

In future years, the Changes in Net Assets table will compare the district's revenues and expenses for the audit year with the most recent prior year and an analysis of the differences between the years will be made. With this being the first year of reporting the district's financial results in this format, a computation of the district's Change in Net Assets for the 2001 fiscal year has not been made, making a comparison between the two years not possible.

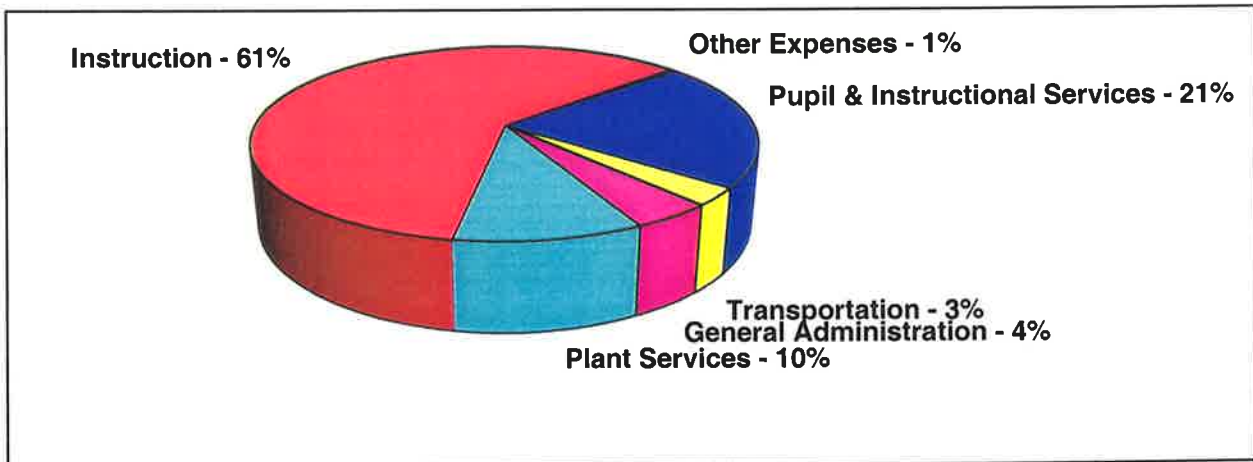
The following graph displays the district's revenue sources by percentage.

### Revenue Sources by Percentage



The graph below displays by percentage the district's expenditure function totals.

### Functional Expenditures by Percentage



## Governmental Activities

### Governmental Activities Expenditures

	Total Cost of Services 2002	Net Cost of Services 2002
Instruction, Instruction-related Services and Pupil Services	\$249,298,615	\$158,681,647
General Administrative and Plant Services	43,833,521	28,336,154
Ancillary Services	457,813	295,926
Totals	\$293,589,949	\$187,313,727

This table displays by function the total and net cost of services provided for the 2002 fiscal year. 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.

In future years, this table will compare the total and net cost of services for the audit year with the most recent prior year and an analysis of the differences between the years will be made. With this being the first year of reporting the district's financial results in this format, an analysis of the district's Cost of Services for the 2001 fiscal year has not been made, making a comparison between the two years not possible.

### Financial Analysis of the District's Funds

The positive financial results of the district as a whole are also reflected in its governmental funds. At June 30, 2002, the district's governmental funds reported a combined fund balance of \$67.9 million, an increase of \$9.5 million over the prior year.

Of the district's thirteen governmental funds, eight had revenues that exceeded expenditures in 2002, contributing to the overall increase in the combined fund balance. The funds showing deficits had adequate reserves to cover these shortfalls.

### General Fund Budgetary Highlights

The district's 2002 General Fund operating budget was adopted by the Governing Board in June of 2001. As adopted, projected expenditures totaled \$268 million. Budgeted revenues totaled \$269 million, with revenues projected to exceed expenditures by approximately \$1 million. A Cost of Living Adjustment (COLA) of 3.87% was applied to revenue sources receiving this increase.

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.

During the year, \$5.0 million in additional Revenue Limit income was budgeted along with \$6.6 million in additional current year entitlements. Budgeted expenditures increased by \$3.8 million for calculated carryover balances, \$1.3 million in unexpended purchase order encumbrances from the prior year, and \$9.5 million in restricted fund balance adjustments. As revised, the final General Fund budget totaled \$296 million, with

expenditures projected to exceed revenues by \$20 million. District reserves were more than adequate to cover this projected shortfall.

While the final budget projected a deficit, the actual results for the year reflected a surplus of \$0.3 million, with a resulting ending fund balance of over \$42 million. Comparing the actual results to the final budget discloses the following regarding this turnaround:

- Revenue Limit income, composed of state aid and local property taxes, totaled \$1.8 million more than budget. The additional revenue resulted from increased student enrollment.
- Federal revenue was \$5.3 million less than budgeted. Unexpended federal revenue at year-end was deferred and rebudgeted in the following year to allow for the balancing of program revenue with the related expenditures.
- State revenue was \$3.1 million higher than budget. Increases in K – 3 Class Size Reduction, Staff Development, and Categorical Mega revenues primarily account for this total.
- Other local revenue was \$1.4 million less than budgeted. Interest rates trended lower during the year, resulting in less interest income earned on invested funds. In addition, the unexpended revenue received from donations was deferred to the following year.
- The salaries of classified personnel were \$1.2 million higher than budget. Negotiated salary increases for two contract years were paid during the 2002 fiscal year, accounting for this difference.
- The books and supplies expenditure category was \$15.3 million less than the amount budgeted. The district has historically used this category to account for any funds reserved but not fully budgeted to other expenditure categories. Reserved, but unexpended, balances have been carried forward to the following year.
- The services and other operating expenditures category was \$6.1 million lower than budget. Amounts budgeted for contracted services on projects not completed at year-end have been carried forward to the following year.
- Capital outlay expenditures were \$1.6 million less than budgeted. Unexpended capital outlay balances using funds that can be carried over have been rebudgeted in the following year.

The district’s healthy financial condition at June 30, 2002 will be tested during 2003 and in future operating years as a result of the uncertain economic condition at the national and, especially, state levels. The district’s plan for moving forward in these unsure times is discussed more fully in the “Economic Factors and Next Year’s Budgets and Rates” section found later in this document.

## Capital Asset and Debt Administration

### Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2002	2001
Land	\$ 10,215,330	\$ 4,549,270
Improvement of Sites	543,258	599,703
Buildings	91,261,437	80,495,032
Machinery and Equipment	3,340,751	3,969,584
Construction in Progress	12,840,188	9,709,727
Totals	\$118,200,964	\$99,323,316

Capital assets in the table above are reflected at June 30, 2002 and 2001, net of depreciation. The district uses \$50,000 as its capitalization threshold. 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 \$18.9 million during the year. Major capital asset additions completed during the year include the following:

✓ Land purchase	George W. Bush Elementary	\$1.2 million
✓ Land purchase	Cesar Chavez High School	\$2.5 million
✓ Land purchase	Rio Calaveras Extension	\$ .8 million
✓ Site purchase	Urbani Institute of Language Development	\$1.2 million
✓ Construction	Delores Huerta Elementary	\$6.8 million
✓ Modernization	Edison High School	\$3.9 million
✓ Portables	7 Science Portables at the 3 High Schools	\$1.6 million

A total of \$12.8 million has been expended on projects still in the construction phase. This includes construction work on George W. Bush Elementary School and Cesar Chavez High School, the modernization of A. A. Stagg High School, and modernization work at other school sites within the district.

### Outstanding Debt at Year-End

	Government-Wide Activities	
	2002	2001
General Obligation Bonds	\$23,070,176	\$ 16,000
Certificates of Participation	15,465,000	15,895,000
Qualified Zone Academic Bonds Payable	1,635,000	1,635,000
Lighting Retrofit Payable	2,883,310	2,281,185
State School Building Loan Payable	14,032	18,038
Compensated Absences	2,855,634	2,103,039
Other Postretirement Benefits	4,292,040	3,982,308
Claims Liability	1,577,419	1,577,419
Other Long-Term Liabilities	408,154	785,324
Totals	\$52,200,765	\$28,293,313

Outstanding debt increased by a net amount of \$23.9 million during the fiscal year. This increase primarily results from the issuance of \$22.8 million in General Obligation bonds, the first issuance from the \$80 million in bonds approved by district voters as part of the November 7, 2000 election. Standard and Poor's issued a credit rating of "AAA" to these bonds, the highest rating given by this company. At the time of issuance, the district's bonding capacity was \$164.1 million, based on total assessed valuation of taxable property within district boundaries of \$6.56 billion. The funds received from the sale of the bonds are being used for the construction of new schools and the renovation of existing school structures.

The district also received \$722,949 to complete funding of the project to retrofit lighting fixtures throughout district buildings. In addition, adjustments were made to reflect the liability for compensated absences and for other postretirement benefits as of June 30, 2002. While no specific debt instrument was retired during the fiscal year, scheduled debt payments were made in a timely manner. Adequate reserves are available to make all required debt payments in the current year.

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

With the national economy still struggling to recover from the recession that began in 2001, and the state facing a major budget shortfall for the 2003 fiscal year, the district's budget outlook is guarded. The district is expected to have sufficient funds to continue present programs and services. It is unlikely, however, that funds will be available, beyond new grants that the district might obtain, to expand district services.

The district's fiscal 2003 budget was prepared using a state Cost of Living Adjustment (COLA) of 1.66%. The budget adopted by the state during the summer provided a COLA of 2% for most programs. The district will adjust the budget to the higher COLA funding percentage. A conservative increase in student enrollment growth has also been made. The revenue increases generated by the COLA and student growth would have been sufficient to see the district through normal inflation had it not been for the substantial increase in health insurance premiums that will be effective for the current fiscal year. The health insurance premium will add an additional \$4.2 million to an already stretched budget.

Factors impacting the 2002-2003 district budget include the following:

- Enrollment growth has been estimated at 600 new students, with 150 of those students charged to the new district charter school. Expenditure budgets have been increased for the salaries and benefits for 30 new teachers. The additional teachers, along with portable classrooms being placed at several schools, will adequately staff the student growth. The projected cost for these expenditure additions is \$1.6 million.
- Reserves have been set aside for the anticipated increased costs of health and welfare benefits. These estimates will be adjusted as final quotes are accepted and implemented. The projected increase of costs in this area is \$4.2 million.
- Contracts with the district's various employee bargaining units were not ratified until late in the 2002 fiscal year. Reserves have been set aside to update the 2003 budgets for the payment of appropriate retroactive salaries.
- The salary lapse has been increased to \$4.5 million from the \$3.3 million budgeted in the 2002 year. The salary lapse is an approximation of the cost avoidance that results from staff turnover.
- Anticipated class and step movement is reflected in the budget at a cost of \$1.6 million.
- All carryover from the 2002 fiscal year, with the exception of those offset by revenue, have been removed from the 2003 budget.
- During the 2003 fiscal year, staff will be hired to start the new George W. Bush Elementary School in FY-04. The budget includes the expenses for the principal, clerical, and custodial staff, as well as furniture and equipment needs.

The 2003 budget reflects expenditures for capital projects scheduled for the fiscal year. Included are:

- ✓ Construction work for the George W. Bush Elementary School
- ✓ Construction work for the Cesar Chavez High School
- ✓ Modernization of Taylor, Marshall, and Stagg schools
- ✓ Opening of the Urbani Institute of Language Development Charter School
- ✓ Expanding Rio Calaveras to include the 7<sup>th</sup> grade
- ✓ Placement of 46 portable classrooms
- ✓ Purchasing land for the new Wilhelmina Henry Elementary School in Southeast Stockton
- ✓ Site approval for the new schools to be located at the University Park
- ✓ Site review for a new Central Stockton School
- ✓ Planning for K-8 conversions at Taft and Nightingale Schools

The 2003 fiscal year budget for Stockton Unified School District continues to fund the programs from the prior year with the caveat that our revenue sources are limited. Revisions to the budget will be made as warranted

with the overriding goal being the ability to offer a quality educational program to all students who attend district schools.

### **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 Ms. Marilyn Domingo, Assistant Superintendent for Business Services, Stockton Unified School District, 701 North Madison Street, Stockton, CA 95202.

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

JUNE 30, 2002

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and equivalents	\$ 93,462,048
Receivables	20,470,067
Inventories	1,704,165
Prepaid expenses	1,207,273
Capital assets:	
Land	10,215,330
Improvement of sites	2,812,320
Buildings	161,810,714
Machinery and equipment	7,246,682
Construction in progress	12,840,188
Less accumulated depreciation	<u>(76,724,270)</u>
Total assets	<u>235,044,517</u>
<b>LIABILITIES</b>	
Accounts payable	19,882,993
Current loans	14,000,000
Deferred revenue	8,809,083
Long-term liabilities due within one year:	
Debt	1,123,330
Compensated absences	242,729
Postemployment benefits	724,545
Claims and judgments	619,045
Long-term liabilities due in more than one year:	
Debt	42,352,342
Compensated absences	2,612,905
Postemployment benefits	3,567,495
Claims and judgments	<u>958,374</u>
Total liabilities	<u>94,892,841</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	74,979,468
Restricted for:	
Capital projects	11,476,132
Debt service	1,882,194
Educational programs	2,705,988
Other purposes (expendable)	9,502,431
Unrestricted	<u>39,605,463</u>
Total net assets	<u>\$ 140,151,676</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2002

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contri- butions	Capital Grants and Contri- butions	Governmental Activities
Instruction	\$ 178,166,908	\$ 2,288,926	\$ 61,798,348	\$ 440,000	\$ (113,639,634)
Instruction-related services:					
Supervision of instruction	15,261,172	432,005	5,208,507		(9,620,660)
Instructional library, media, and technology	2,517,951	59,383	863,636		(1,594,932)
School site administration	19,085,587	135,850	6,659,319		(12,290,418)
Pupil services:					
Pupil transportation	8,601,927	299,052	2,915,767		(5,387,108)
Food services	10,116,147	470,631	3,386,225		(6,259,291)
Other pupil services	15,548,923	303,369	5,355,950		(9,889,604)
Ancillary services	457,813	1,523	160,364		(295,926)
General administration:					
Data processing services	2,648,871		931,028		(1,717,843)
Other general administration	10,392,851	106,073	3,614,708		(6,672,070)
Plant services	30,791,799	35,666	10,809,892		(19,946,241)
Interest on debt	2,192,467				(2,192,467)
Transfers to other agencies	281,310				(281,310)
Other outgo	309,732				(309,732)
Depreciation, unallocated	267,113				(267,113)
Totals	<u>\$ 296,640,571</u>	<u>\$ 4,132,478</u>	<u>\$ 101,703,744</u>	<u>\$ 440,000</u>	<u>(190,364,349)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					45,137,980
Taxes levied for debt service					1,742,817
Federal and state aid not restricted to specific purposes					140,636,316
Interest and investment earnings					3,122,972
Miscellaneous revenue					3,212,474
Total general revenues					<u>193,852,559</u>
Increase in net assets					3,488,210
Net assets – beginning					<u>136,663,466</u>
Net assets – ending					<u>\$ 140,151,676</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2002

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 63,937,967	\$ 26,809,970	\$ 90,747,937
Receivables	13,070,883	3,295,883	16,366,766
Due from other funds	1,184,962	914,283	2,099,245
Inventories	1,153,112	551,053	1,704,165
Prepaid expenses	<u>45,028</u>	<u>156</u>	<u>45,184</u>
<b>Total assets</b>	<u><b>\$ 79,391,952</b></u>	<u><b>\$ 31,571,345</b></u>	<u><b>\$ 110,963,297</b></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 13,903,902	\$ 4,240,737	\$ 18,144,639
Due to other funds	912,348	1,184,149	2,096,497
Current loans	14,000,000		14,000,000
Deferred revenue	<u>8,219,369</u>	<u>589,714</u>	<u>8,809,083</u>
<b>Total liabilities</b>	<u><b>37,035,619</b></u>	<u><b>6,014,600</b></u>	<u><b>43,050,219</b></u>
<b>Fund balances:</b>			
<b>Reserved for:</b>			
Revolving cash	70,000	1,523	71,523
Inventories	1,153,112	551,053	1,704,165
Prepaid expenditures	45,028	156	45,184
Debt service		1,882,194	1,882,194
Legally restricted programs	8,911,473		8,911,473
<b>Unreserved, reported in:</b>			
General fund	32,176,720		32,176,720
Special revenue funds		11,655,686	11,655,686
Capital projects funds		<u>11,466,132</u>	<u>11,466,132</u>
<b>Total fund balances</b>	<u><b>42,356,333</b></u>	<u><b>25,556,745</b></u>	<u><b>67,913,078</b></u>
<b>Total liabilities and fund balances</b>	<u><b>\$ 79,391,952</b></u>	<u><b>\$ 31,571,345</b></u>	<u><b>\$ 110,963,297</b></u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

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

JUNE 30, 2002

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<b>Total fund balances - governmental funds</b>	\$ 67,913,078
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The historical cost of the capital assets is \$194,925,234, and the accumulated depreciation is \$76,724,270.	118,200,964
Some of the District's revenues will be collected after year-end but are not available soon enough to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,466,869
Internal service funds are used by the District to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	3,352,275
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, including accrued interest, and net of unamortized premiums, discounts, and deferred charges, are included in governmental activities in the statement of net assets.	<u>(51,781,510)</u>
<b>Total net assets - governmental activities</b>	<u>\$ 140,151,676</u>

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2002

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
State apportionment	\$ 125,998,052	\$ 3,101,922	\$ 129,099,974
Local sources	<u>45,137,980</u>		<u>45,137,980</u>
Total revenue limit	171,136,032	3,101,922	174,237,954
Federal revenues	22,219,299	8,320,003	30,539,302
Other state revenues	78,145,979	4,880,841	83,026,820
Other local revenues	<u>6,126,831</u>	<u>6,341,591</u>	<u>12,468,422</u>
Total revenues	<u>277,628,141</u>	<u>22,644,357</u>	<u>300,272,498</u>
<b>EXPENDITURES</b>			
Instruction	169,873,385	4,270,776	174,144,161
Instruction-related services:			
Supervision of instruction	14,967,985	227,409	15,195,394
Instructional library, media, and technology	2,517,519		2,517,519
School site administration	18,381,593	541,737	18,923,330
Pupil services:			
Pupil transportation	8,327,237		8,327,237
Food services	36,713	10,106,367	10,143,080
Other pupil services	15,256,098	288,037	15,544,135
Ancillary services	457,813		457,813
General administration:			
Data processing services	2,537,574		2,537,574
Other general administration	9,466,135	705,995	10,172,130
Plant services	27,986,288	1,009,448	28,995,736
Debt service:			
Principal	737,744	194,256	932,000
Interest and other charges	20,880	900,673	921,553
Capital outlay	3,021,400	22,127,739	25,149,139
Transfers to other agencies	<u>281,310</u>		<u>281,310</u>
Total expenditures	<u>273,869,674</u>	<u>40,372,437</u>	<u>314,242,111</u>
Excess (deficiency) of revenues over expenditures	<u>3,758,467</u>	<u>(17,728,080)</u>	<u>(13,969,613)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers in	125,445	18,002,965	18,128,410
Debt proceeds	722,949	22,626,516	23,349,465
Interfund transfers out	<u>(4,267,893)</u>	<u>(13,735,072)</u>	<u>(18,002,965)</u>
Total other financing sources (uses)	<u>(3,419,499)</u>	<u>26,894,409</u>	<u>23,474,910</u>
Net increase in fund balances	338,968	9,166,329	9,505,297
Fund balances – beginning, as restated	<u>42,017,365</u>	<u>16,390,416</u>	<u>58,407,781</u>
Fund balances – ending	<u>\$ 42,356,333</u>	<u>\$ 25,556,745</u>	<u>\$ 67,913,078</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2002

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<b>Total net change in fund balances - governmental funds</b>	<b>\$ 9,505,297</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$23,695,605) exceeds depreciation expense (\$4,817,957) in the period.	18,877,648
Proceeds from debt provide current financial resources to governmental funds however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from the issuance of revenue bonds. This amount is the net effect of proceeds and issuance costs.	(24,512,539)
Repayment of the principal of long-term debt is reported as an expenditure in governmental funds; but the repayment reduces long-term liabilities in the statement of net assets.	1,656,545
Premiums, discounts, and deferred charges related to long-term debt are expended in the year of issuance by governmental funds. However, these costs are deferred and amortized in the statement of activities. This amount reflects the amortization of premiums, discounts, and deferred charges.	(35,108)
Revenues in the statement of activities that do not provide current financial resources, because they will not be collected within the District's availability period, are not reported as revenues in governmental funds.	2,283
Increases in compensated absences liability are not recorded as expenditures in governmental funds because they are not expected to be liquidated with current financial resources. In the statement of activities, compensated absences are recognized as expenses when earned by employees.	(752,595)
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. However, in the statement of activities, unmatured interest on long-term debt is accrued at year-end.	(1,128,190)
Internal service funds are used by the District to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities in the statement of activities.	<u>(125,131)</u>
<b>Changes in net assets of governmental activities</b>	<b>\$ <u>3,488,210</u></b>



# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF FUND NET ASSETS PROPRIETARY FUNDS JUNE 30, 2002

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and equivalents	\$ 2,714,111
Receivables	1,636,431
Prepaid expenses	<u>671,675</u>
Total assets	<u>5,022,217</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	89,775
Due to other funds	2,748
Long-term liabilities due within one year:	
Claims and judgments	<u>619,045</u>
Total current liabilities	711,568
Long-term liabilities due in more than one year:	
Claims and judgments	<u>958,374</u>
Total liabilities	<u>1,669,942</u>
<b>NET ASSETS</b>	
Unrestricted	<u>3,352,275</u>
Total net assets	<u>\$ 3,352,275</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2002

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b>OPERATING REVENUES</b>	
Charges for services	<u>\$ 6,290,454</u>
<b>OPERATING EXPENSES</b>	
Claims and administration	3,483,213
Services and other operating expenses	<u>2,747,230</u>
Total operating expenses	<u>6,230,443</u>
Operating income	<u>60,011</u>
<b>NONOPERATING REVENUES</b>	
Interest and investment earnings	<u>65,120</u>
Income before transfers	125,131
Interfund transfers out	<u>(125,445)</u>
Decrease in net assets	(314)
Net assets – beginning	<u>3,352,589</u>
Net assets – ending	<u>\$ 3,352,275</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2002

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 7,236,419
Claims paid	(2,657,762)
Payments to suppliers	(4,331,207)
Net cash provided by operating activities	247,450
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(125,445)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	65,120
Net increase in cash and equivalents	187,125
Cash and equivalents – beginning of year	2,526,986
Cash and equivalents – end of year	\$ 2,714,111
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 60,011
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Receivables	(100,923)
Due from other funds	1,046,889
Prepaid expenses	(641,683)
Accounts payable	(71,683)
Due to other funds	(45,161)
Net cash provided by operating activities	\$ 247,450

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2002

	<u>Agency Funds</u>	
	<u>Warrant / Pass-Through Fund</u>	<u>Student Body Funds</u>
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 59,708	\$ 1,672,448
Receivables	38,036	
Prepaid expenses	1,796,970	
Total assets	<u>\$ 1,894,714</u>	<u>\$ 1,672,448</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 1,894,714	
Due to student groups and other agencies		\$ 1,672,448
Total liabilities	<u>\$ 1,894,714</u>	<u>\$ 1,672,448</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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1. SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING POLICIES

The Stockton Unified School District (the District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. REPORTING ENTITY

The District includes all funds and activities that are controlled by or dependent on the District's governing board for financial reporting purposes. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in accounting principles generally accepted in the United States of America. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The District has a financial and operational relationship with the Stockton Unified School District Community Facilities District No. 1 (CFD) and the Stockton Unified School District Financing Corporation (Financing Corporation). These relationships meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion as a blended component units of the District. Accordingly, the financial activities of these entities have been included in the financial statements of the District.

Stockton Unified School District Community Facilities District No. 1 – Pursuant to Mello-Roos Community Facilities Act of 1982, the District established the Community Facilities District, a legally constituted governmental entity established for the purpose of financing special capital projects. The financial activity of the CFD is accounted for in the Community Facilities District Capital Projects Fund.

Stockton Unified School District Financing Corporation – The purpose of the Financing Corporation is to finance the acquisition and construction of school facility improvements together with necessary furniture and equipment to be located at the Rio Calaveras and San Joaquin Elementary sites. The financial activity of the Financing Corporation is accounted for in the Capital Facilities Fund.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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C. IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

For the year ended June 30, 2002, the District was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 (GASB 37) *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statements use full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the government’s financial activities is also required by GASB 34. Furthermore, the District’s notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for an increase of \$74,903,101, for a net asset balance of \$136,766,022 at June 30, 2001 on the government-wide financial statements.

D. BASIS OF PRESENTATION

**Government-wide financial statements** – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

# STOCKTON UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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**Fund financial statements** – Fund financial statements report more detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for employee self-insurance claims and post-employment benefit payments. Operating expenses for the internal service funds include the costs of insurance premiums and claims related to self-insurance and post-employment benefits.

Fiduciary funds are reported using the economic resources measurement focus.

### E. BASIS OF ACCOUNTING

Basis of accounting refers to when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

# STOCKTON UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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**Revenues – Exchange and Non-exchange Transactions** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 45, 60, or 90 days after year-end depending on the revenue source. However, to achieve comparability of reporting among California district’s and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state aid apportionments, the California Department of Education has defined available as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Deferred Revenue** – Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**Expenses/Expenditures** – Under the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in the net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.



STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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F. 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 (or retained earnings), 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 major, non-major, internal service, and fiduciary funds as follows:

Major Governmental Fund

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

Non-Major Governmental Funds

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

The **Adult Education Fund** is used to account for resources committed to adult education programs maintained by the District.

The **Cafeteria Fund** is used to account for revenues received and expenditures made to operate the District's cafeterias.

The **Child Development Fund** is used to account for resources committed to child development programs maintained by the District.

The **Deferred Maintenance Fund** is used for the purpose of major repair or replacement of District property.

**Debt Service Funds** are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and other debt related costs. The District maintains the following debt service funds:

The **Bond Interest and Redemption Fund** is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and other debt related costs.

The **Tax Override Fund** is used to account for the accumulation of resources from ad valorem tax levies for the repayment of State School Building Fund apportionments. These taxes will continue to be levied until the debt is fully paid.

# STOCKTON UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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**Capital Projects Funds** are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

The **Building Fund** is used to account for the acquisition of major governmental capital facilities and buildings from bond proceeds.

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

The **State School Building Lease-Purchase Fund** is used primarily to account for state apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

The **County School Facilities Fund** is used to account for state apportionment provided for construction and reconstruction of school facilities under SB50.

The **Special Reserve Fund** is used to account for capital projects and AB87 funding.

### Internal Service Funds

The **Internal Service Fund** is used to account for services rendered on a cost-reimbursement basis within the District. The District maintains two internal service funds, the **Self-Insurance Fund**, which is used to provide general and vehicle liability, workers' compensation, dental, and vision coverage to its employees and the **Retiree Benefits Fund** which is used to separately account for resources that are held for early retirement incentive agreements and post-employment benefits.

### Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. The District maintains two agency funds.

**Agency Funds** are used to account for assets of others for which the District acts as an agent. The District maintains **student body funds**, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District. The District also maintains a **warrant pass-through fund**, which is used primarily to account separately for amounts collected from employees for federal taxes, state taxes, credit unions, and other contributions.

## G. BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds with the exception of Debt Service Funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

# STOCKTON UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund are presented as required supplementary information in these financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. Unencumbered budget appropriations lapse at the end of the fiscal year.

### H. ENCUMBRANCES

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

### I. CASH AND CASH EQUIVALENTS

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash and cash equivalents.

### J. STORES INVENTORIES AND PREPAID EXPENDITURES

Inventories are valued at the lower of cost or market utilizing the consumption method in that the cost is recorded as an expenditure at the time individual inventory items are withdrawn from stores inventory for consumption. Inventories in the applicable funds consist primarily of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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K. CAPITAL ASSETS

Capital assets are those purchased or acquired with an original cost of \$50,000 or more and are reported 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 outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

<u>Assets Class</u>	<u>Years</u>
Improvement of Sites	20
Buildings	20-50
Machinery and Equipment	5-30

L. COMPENSATED ABSENCES

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District on the government-wide financial statements. Compensated absences are generally liquidated by the general fund.

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

M. FUND BALANCE RESERVES AND DESIGNATIONS

In the governmental fund financial statements, reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserves for revolving fund, stores inventory, and legally restricted programs reflects the portions of fund balance that are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource use in a future period that are subject to change.

N. PROPERTY TAXES

Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Joaquin bills and collects the taxes for the District.

O. LONG-TERM OBLIGATIONS

The District reports long-term debt of governmental funds at face value in the government-wide financial statements, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements and government wide financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Joaquin County Treasury (the County). The County pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

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

The County is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

As of June 30, 2002, the carrying amount of the District's bank deposits was \$1,811,276 and the bank balance was \$1,868,682. Of the bank balance, \$201,781 was insured by the Federal Depository Insurance Corporation. The remainder, \$1,666,901, was covered by collateral held in the pledging financial institutions' trust departments in the District's name. Cash on hand of \$11,363 was not insured.

Credit Risk

Investments in pools managed by other governments or in mutual funds are not required to be categorized. In addition, the student body funds have investments in certificates of deposit which are held in institutions insured by the Federal Depository Insurance Corporation.

Derivative Investments

The District did not directly enter into any derivative investments. Information regarding the amount of dollars invested in derivatives by the San Joaquin County Treasury was not available.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

**3. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following as of June 30, 2002:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Federal government	\$ 2,380,760	\$ 1,616,969	\$ 3,997,729
State government	9,854,392	1,527,386	11,381,778
Local government	259,953		259,953
Interest	373,080	143,300	516,380
Miscellaneous	<u>202,698</u>	<u>8,228</u>	<u>210,926</u>
<b>Totals</b>	<b>\$ <u>13,070,883</u></b>	<b>\$ <u>3,295,883</u></b>	<b>\$ <u>16,366,766</u></b>

Included in state government receivables above is a receivable for a favorable settlement relating to special education programs and services in the amount of \$1,367,649. This receivable will be collected by the District over the next nine years.

**4. INTERFUND TRANSACTIONS**

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Due from/Due to Other Funds

Individual interfund receivables and payables as of June 30, 2002 as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 1,184,962	\$ 912,348
Non-major Governmental Funds	914,283	1,184,149
Internal Service Funds		<u>2,748</u>
<b>Total</b>	<b>\$ <u>2,099,245</u></b>	<b>\$ <u>2,099,245</u></b>

Interfund receivables and payables are paid and cleared in the subsequent period.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

Interfund Transfers

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

Interfund transfers for the year ended June 30, 2002 were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-major Governmental Funds</u>	
General Fund		\$ 4,267,893	\$ 4,267,893
Non-major Governmental Funds		13,735,072	13,735,072
Internal Service Funds	\$ 125,445		125,445
Total	\$ 125,445	\$ 18,002,965	\$ 18,128,410

**5. CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2002 was as follows:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2002</u>
Capital assets, not being depreciated:				
Land	\$ 4,549,270	\$ 5,666,060		\$ 10,215,330
Construction in progress	9,709,727	17,971,192	\$ 14,840,731	12,840,188
Total capital assets, not being depreciated	<u>14,258,997</u>	<u>23,637,252</u>	<u>14,840,731</u>	<u>23,055,518</u>
Capital assets, being depreciated:				
Improvement of sites	2,812,320			2,812,320
Buildings	146,969,983	14,840,731		161,810,714
Machinery and equipment	7,188,329	58,353		7,246,682
Total capital assets, being depreciated	<u>156,970,632</u>	<u>14,899,084</u>		<u>171,869,716</u>
Less accumulated depreciation for:				
Improvement of sites	(2,212,617)	(56,445)		(2,269,062)
Buildings	(66,474,951)	(4,074,326)		(70,549,277)
Machinery and equipment	(3,218,745)	(687,186)		(3,905,931)
Total accumulated depreciation	<u>(71,906,313)</u>	<u>(4,817,957)</u>		<u>(76,724,270)</u>
Total capital assets, being depreciated, net	<u>85,064,319</u>	<u>10,081,127</u>		<u>(95,145,446)</u>
Governmental activities capital assets, net	\$ <u>99,323,316</u>	\$ <u>33,718,379</u>	\$ <u>14,840,731</u>	\$ <u>118,200,964</u>

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

For the year ended June 30, 2002, depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 4,105,973
Pupil transportation	247,421
Food services	7,247
Data processing services	89,939
Plant services	13,975
Other general administration	86,289
Depreciation (unallocated portion)	<u>267,113</u>
Total depreciation expense	\$ <u>4,817,957</u>

**6. LONG-TERM LIABILITIES**

General Obligation Bonds

In July 2001, the District issued General Obligation Bonds in the amount of \$22,800,000, with interest rates ranging from 4.25% to 6%.

The bonds mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 16,000	\$ 1,701,751	\$ 1,717,751
2004	485,000	1,141,356	1,626,356
2005	520,000	1,111,206	1,631,206
2006	565,000	1,078,656	1,643,656
2007	605,000	1,043,556	1,648,556
2008-2012	3,525,000	4,684,169	8,209,169
2013-2017	4,385,000	3,723,525	8,108,525
2018-2022	5,560,000	2,529,872	8,089,872
2023-2027	<u>7,155,000</u>	<u>946,075</u>	<u>8,101,075</u>
Subtotal	22,816,000	17,960,166	40,776,166
Plus: Unamortized Premium	<u>254,176</u>	<u>0</u>	<u>254,176</u>
Totals	\$ <u>23,070,176</u>	\$ <u>17,960,166</u>	\$ <u>41,030,342</u>



STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

Certificates Of Participation

In February 1997, the District issued Certificates of Participation in the amount of \$17,500,000, with interest rates ranging from 4.85% to 5.5%. As of June 30, 2002, the principal balance outstanding was \$15,465,000.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 450,000	\$ 815,655	\$ 1,265,655
2004	470,000	793,605	1,263,605
2005	495,000	770,575	1,265,575
2006	520,000	746,073	1,266,073
2007	545,000	720,073	1,265,073
2008-2012	3,205,000	3,161,335	6,366,335
2013-2017	4,210,000	2,213,463	6,423,463
2018-2022	<u>5,570,000</u>	<u>932,298</u>	<u>6,502,298</u>
Totals	<u>\$ 15,465,000</u>	<u>\$ 10,153,077</u>	<u>\$ 25,618,077</u>

Qualified Zone Academy Bonds

On June 1, 2000, the District issued \$1,635,000 in Qualified Zone Academy Bonds and entered into a purchase contract in the amount of \$1,637,501 with the Bank of Agriculture of Commerce (the Bank), whereby the Bank has agreed to finance the acquisition of certain improvements to the District's Weber Institute and sell the improvements to the District upon specified terms and conditions. Under the terms of the contract, the District has deposited \$770,000 with the Bank as collateral for bonds, which the Bank will hold for the account of the District in the form of a certificate of deposit bearing interest at 6.304 percent per annum (compounded monthly), and payable on June 13, 2012. The certificate of deposit together with interest earnings will be sufficient to repay the Bonds, which mature on June 13, 2012.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

California Energy Commission Loans

In August 2000 and June 2001, the District entered into contracts with the California Energy Commission to receive money for energy conservation projects. The contracts are charged interest at 5.4%. The combined schedule of future payments is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 228,274	\$ 211,443	\$ 439,717
2004	299,958	139,759	439,717
2005	316,746	122,971	439,717
2006	334,081	105,636	439,717
2007	352,365	87,352	439,717
2008-2011	<u>1,351,886</u>	<u>149,387</u>	<u>1,501,273</u>
Totals	<u>\$ 2,883,310</u>	<u>\$ 816,548</u>	<u>\$ 3,699,858</u>

State School Building Loans Payable

State school building loan activity for the year ended June 30, 2002 was as follows:

<u>Balance July 1, 2001</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2002</u>
\$ <u>18,038</u>	\$ _____	\$ <u>4,006</u>	\$ <u>14,032</u>

State school building loans are secured by all sites purchased and improved; all equipment purchased; and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Education Code Section 16019. Interest rates range from 4.9% to 5.1%.

Annual repayment is determined by the State Controller in accordance with Education Code Section 16214.

Post-Employment Benefits

In addition to the CalPERS/STRS pension benefits described elsewhere in this report, the District provides postretirement health care benefits to age 65 for certain groups of employees who retire from the District after attaining age 55 with at least 10 years of service. These postretirement health care benefit provisions are established per contractual agreement with employee groups. On June 30, 2002, 301 retirees met these eligibility requirements. The District pays up to \$443.16 per month for health benefits of retirees to the age of 65 on a pay-as-you-go basis. During the year, expenditures of \$724,545 were recognized for postretirement health care benefits. The liability at June 30, 2002 is \$4,292,040 and is based on the estimated lives of participants.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2002 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 16,000	\$ 23,054,176		\$ 23,070,176	\$ 26,591
Certificates of Participation	15,895,000		\$ 430,000	15,465,000	450,000
Qualified Zone Academy Bonds	1,635,000			1,635,000	
CA Energy Commission Loan	2,281,185	722,949	120,824	2,883,310	228,274
State School Building Loans	18,038		4,006	14,032	10,311
Post-Employment Benefits	3,982,308	1,034,277	724,545	4,292,040	724,545
Claims Liability (Note 7)	1,577,419			1,577,419	619,045
Compensated Absences	2,103,039	752,595		2,855,634	242,729
Other Long Term Liabilities	<u>785,324</u>		<u>377,170</u>	<u>408,154</u>	<u>408,154</u>
Governmental Activities Long-term Liabilities	<u>\$ 28,293,313</u>	<u>\$ 25,563,997</u>	<u>\$ 1,656,545</u>	<u>\$ 52,200,765</u>	<u>\$ 2,709,649</u>

**7. RISK MANAGEMENT/CLAIMS LIABILITIES**

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains property and liability insurance with a commercial carrier for claims up to \$1,000,000 with a deductible of \$100,000 per incident. During the year ended June 30, 2002, the District participated in three joint powers agreements (JPAs) for purposes of pooling of risk related to property and liability and worker's compensation claims. See "Joint Ventures" footnote for nature of participation.

The District is fully self-insured for dental care for all employees. All claims are administered by outside parties and the Self-Insurance Fund accounts for and liquidates these insurance activities.

The District has accrued a liability of \$1,577,419 at June 30, 2002 for its self-insured claims and deductibles in the Self-Insurance Fund, which includes an amount for claims incurred but not reported. The liability is based upon an evaluation by outside administrators for known claims and management's evaluation of incidents incurred but not reported, excluding incremental costs. In the opinion of the District, the amounts accrued are adequate to cover claims incurred but not reported, in addition to known claims.

Changes in claims liability for the years ended June 30, 2002 and 2001 are as follows:

	<u>Liability Beginning of Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Liability End of Year</u>
2001-2002	\$ <u>1,577,419</u>	\$ <u>2,657,762</u>	\$ <u>(2,657,762)</u>	\$ <u>1,577,419</u>
2000-2001	\$ <u>1,395,524</u>	\$ <u>3,090,608</u>	\$ <u>(2,908,713)</u>	\$ <u>1,577,419</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

8. JOINT VENTURES (Joint Powers Agreements)

The District participates in three joint ventures under joint powers agreements (JPAs). The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

Northern California Schools' Regional Liability Excess Fund

The District is a member of the Northern California Schools' Regional Liability Excess Fund (NCSReLiEF) for the operation of a common risk management and insurance program. The membership includes various school districts in San Joaquin County and the Office of Education. NCSReLiEF is governed by a board consisting of representatives of member districts. The board controls the operations of NCSReLiEF, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Copies of the NCSReLiEF annual financial report may be obtained from the District office.

Condensed audited financial information for NCSReLiEF for the year ended June 30, 2002 is as follows:

Total Assets	\$ 22,106,566
Total Liabilities	\$ 15,267,217
Retained Earnings	6,839,349
	<u>\$ 22,106,566</u>
Total Revenues	\$ 19,767,657
Total Expenses	16,644,047
Net Decrease in Retained Earnings	<u>\$ 3,123,610</u>

Schools Excess Liability Fund

The District is also a member of the Schools Excess Liability Fund (SELF) for the operation of a common risk management and insurance program. The program pools excess liability and workers' compensation coverage. The membership includes various California public educational agencies. SELF is governed by a board consisting of representatives from member districts. The board controls the operations of SELF including the selection of the management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Copies of the SELF annual financial report may be obtained from the District Office.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

Condensed unaudited financial information for SELF for the year ended June 30, 2002 is as follows:

Total Assets	\$ <u>112,317,095</u>
Total Liabilities	\$ 55,927,060
Retained Earnings	<u>56,390,035</u>
	\$ <u>112,317,095</u>
Total Revenues	\$ 25,742,442
Total Expenses	<u>2,027,921</u>
Net Increase in Retained Earnings	\$ <u>23,714,521</u>

San Joaquin County Schools Workers' Compensation Insurance Group

The District is a member of the San Joaquin County Schools Workers' Compensation Insurance Group (SJCSWCIG) for the operation of a common workers' compensation insurance program. The membership includes various school districts in San Joaquin County and the County Office of Education. SJCSWCIG is governed by a board consisting of representatives from member districts. The board controls the operations of SJCSWCIG, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Copies of the SJCSWCIG annual financial report may be obtained from the District office.

Condensed unaudited financial information for SJCSWCIG for the year ended June 30, 2002 is as follows:

Total Assets	\$ <u>4,112,964</u>
Total Liabilities	\$ 1,044,960
Retained Earnings	<u>3,068,004</u>
	\$ <u>4,112,964</u>
Total Revenues	\$ 11,412,733
Total Expenses	<u>10,987,903</u>
Net Increase in Retained Earnings	\$ <u>424,830</u>

**9. COMMITMENTS AND CONTINGENCIES**

State and Federal Allowances, Awards, and Grants

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

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**10. 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).

CalPERS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), 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. Employer contributions were not required for fiscal year 2001-02. The contribution requirements of the plan members are established by state statute. The District made no contributions to CalPERS for the fiscal years ending June 30, 2002, 2001, and 2000 as none were required.

STRS:

Plan Description

The District contributes to 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 STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2002

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2001-02 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, 2002, 2001, and 2000 were \$10,486,578, \$10,236,207, \$8,708,741, and respectively, and equal 100% of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to STRS for early retirement incentives granted to terminated employees.

**11. TAX REVENUE ANTICIPATION NOTES (TRANS)**

Tax revenue anticipation notes are short-term debt instruments. They are issued to eliminate cash flow deficiencies that result from fluctuations in revenue receipts and expenditure disbursements.

	<u>Outstanding June 30, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2002</u>
2000 3.63% School Improvement Note	\$ 10,500,000		\$ (10,500,000)	
2001 2.25% School Improvement Note		\$ 14,000,000		\$ 14,000,000
Total	\$ 10,500,000	\$ 14,000,000	\$ (10,500,000)	\$ 14,000,000

**12. ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA**

The District was the recipient of on-behalf payments made by the State of California to STRS and CalPERS for K-12 education. These payments consisted of state general fund contributions to STRS in the amount of \$5,688,174 (4.475% of salaries subject to STRS) and mandated costs for CalPERS benefits in the amount of \$37,870 (.0925% of salaries subject to CalPERS).

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

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**13. PRIOR PERIOD ADJUSTMENT**

The fund balance of the General Fund at June 30, 2001 has been restated to record the accrual of state funds for staff development not previously recorded. The financial statement effect is as follows:

Fund Balance, as previously reported	\$40,765,450
Prior Period Adjustment	<u>1,251,911</u>
Fund Balance, as restated	<u>\$42,017,361</u>



**REQUIRED SUPPLEMENTARY INFORMATION**

# STOCKTON UNIFIED SCHOOL DISTRICT

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	GAAP Basis	Favorable
				(Unfavorable)
<b>REVENUES</b>				
State apportionment	\$ 119,845,861	\$ 123,728,073	\$ 125,998,052	\$ 2,269,979
Local sources	44,130,771	45,609,950	45,137,980	(471,970)
Total revenue limit	163,976,632	169,338,023	171,136,032	1,798,009
Federal revenues	23,840,789	28,008,221	22,219,299	(5,788,922)
Other state revenues	73,884,303	74,617,200	78,145,979	3,528,779
Other local revenues	7,421,038	8,247,386	6,126,831	(2,120,555)
Total revenues	269,122,762	280,210,830	277,628,141	(2,582,689)
<b>EXPENDITURES</b>				
Certificated personnel salaries	133,905,753	140,043,842	139,728,675	315,167
Classified personnel salaries	39,187,017	45,889,173	47,137,561	(1,248,388)
Employee benefits	41,610,463	43,785,087	43,385,952	399,135
Books and supplies	25,188,260	35,371,526	20,055,241	15,316,285
Services and other operating expenditures	23,141,228	27,575,248	21,493,450	6,081,798
Capital outlay	4,574,047	3,374,553	1,755,735	1,618,818
Other outgo	35,000	153,242	281,312	(128,070)
Direct support/indirect costs	(601,497)	(609,017)	(705,996)	96,979
Debt service	490,033	631,683	737,744	(106,061)
Total expenditures	267,530,304	296,215,337	273,869,674	22,345,663
Excess (deficiency) of revenues over expenditures	1,592,458	(16,004,507)	3,758,467	19,762,974
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in		118,523	125,445	6,922
Debt proceeds			722,949	722,949
Interfund transfers out	(620,893)	(4,267,893)	(4,267,893)	
Total other financing sources (uses)	(620,893)	(4,149,370)	(3,419,499)	729,871
Net increase (decrease) in fund balance	971,565	(20,153,877)	338,968	20,492,845
Fund balance – beginning	30,002,784	40,765,459	42,017,365	1,251,906
Fund balance – ending	<u>\$ 30,974,349</u>	<u>\$ 20,611,582</u>	<u>\$ 42,356,333</u>	<u>\$ 21,744,751</u>

## **SUPPLEMENTARY INFORMATION SECTION**

# STOCKTON UNIFIED SCHOOL DISTRICT

JUNE 30, 2002

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## ORGANIZATION

The Stockton Unified School District was established on July 1, 1936 and comprises an area located in San Joaquin County. There were no changes in the boundaries of the District during the current year. The District currently operates 34 elementary, 4 intermediate, and 4 high schools, including Weber Technical High School. The District also maintains an adult education school, a special education school, a community day school, an independent study program, and a child development program.

## GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Glen A. Dolberg, Ph.D.	President	2002
Louis Gonzales	Vice-President	2002
Edward R. Garcia	Member	2004
Vicki Brand	Member	2004
Clarence K. Chan	Member	2004
Clem Lee	Member	2002
Katrina Rios	Member	2002

## ADMINISTRATION

George E. Ridler  
Superintendent

Carl Toliver  
Deputy Superintendent

Marilyn Domingo  
Assistant Superintendent, Business

Allyn Bulzomi  
Assistant Superintendent, Human Resources

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**YEAR ENDED JUNE 30, 2002**

	<b>Second Period Report</b>	<b>Annual Report</b>
<b>Elementary:</b>		
Kindergarten	2,922	2,930
Grades 1 through 3	9,636	9,650
Grades 4 through 6	9,115	9,098
Grades 7 and 8	5,119	5,067
Special Education	729	723
Opportunity Schools	41	42
Home and Hospital	8	11
Community Day School	32	38
Extended Year ADA	70	70
<b>Elementary Totals</b>	<b>27,672</b>	<b>27,629</b>
 <b>High School:</b>		
Grades 9 through 12, Regular Classes	7,193	7,009
Special Education	467	454
Continuation Education	399	387
Opportunity Schools	120	130
Home and Hospital	14	18
Community Day School	28	41
Extended Year ADA	46	46
<b>High School Totals</b>	<b>8,267</b>	<b>8,085</b>
 <b>Classes for Adults:</b>		
Concurrently Enrolled	70	76
Not Concurrently Enrolled	1,194	1,413
<b>ADA Totals</b>	<b>37,203</b>	<b>37,203</b>
		<b>Hours of Attendance</b>
<b>Supplemental Instruction:</b>		
Elementary		255,106
Secondary		403,557

**STOCKTON UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME**

**YEAR ENDED JUNE 30, 2002**

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<b>Grade Level</b>	<b>1982-83 Actual Minutes</b>	<b>1986-87 Minutes Requirement</b>	<b>2001-02 Actual Minutes</b>	<b>Number of Days Traditional Calendar</b>	<b>Number of Days Multitrack Calendar</b>	<b>Status</b>
Kindergarten	31,500	36,000	36,000	180	175	In Compliance
Grades 1 through 3	50,250	50,400	53,747	180	175	In Compliance
Grades 4 through 6	53,850	54,000	54,000	180	175	In Compliance
Grades 7 through 8	58,500	54,000	58,500	180	175	In Compliance
Grades 9 through 12	64,980	64,800	65,015	180	N/A	In Compliance

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2002**

<b>GENERAL FUND</b>				
	June Adopted Budget 2003	2002	2001	2000
Revenues and other financial sources	\$ 277,986,544	\$ 278,476,535	\$ 270,474,896	\$ 223,346,339
Expenditures	275,668,964	273,869,674	252,497,652	217,673,726
Other uses and transfers out	<u>1,220,893</u>	<u>4,267,893</u>	<u>1,083,411</u>	<u>954,726</u>
Total outgo	276,889,857	278,137,567	253,581,063	218,628,452
Change in fund balance	<u>1,096,687</u>	<u>338,968</u>	<u>16,893,833</u>	<u>4,717,887</u>
Ending fund balance	\$ <u>43,453,020</u>	\$ <u>42,356,333</u>	\$ <u>40,765,450</u>	\$ <u>23,871,617</u>
Available reserves <sup>1</sup>	\$ <u>7,574,097</u>	\$ <u>6,395,119</u>	\$ <u>8,887,219</u>	\$ <u>14,235,420</u>
Designated for economic uncertainties	\$ <u>5,537,797</u>	\$ <u>4,432,822</u>	\$ <u>5,071,261</u>	\$ <u>4,372,569</u>
Undesignated fund balance	\$ <u>2,036,300</u>	\$ <u>1,962,297</u>	\$ <u>3,815,958</u>	\$ <u>9,862,851</u>
Available reserves as a percentage of total outgo	2.7%	2.3%	3.5%	6.5%
Total long-term debt	\$ 49,722,689	\$ 52,200,765	\$ 24,434,709	\$ 24,689,288
Average daily attendance at P-2 <sup>2</sup>	36,690	35,939	34,344	33,626

<sup>1</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund.

<sup>2</sup> Excludes Adult Education ADA.

The general fund balance has increased by \$18,484,716 over the past two years. The fiscal year 2002-03 budget projects an increase of \$1,096,687 (2.6%). For a district this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

Total long-term debt has increased by \$27,511,477 over the past two years.

Average daily attendance has increased by 2,313 over the past two years. An increase of 751 ADA is anticipated during fiscal year 2002-03.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**STOCKTON UNIFIED SCHOOL DISTRICT**

**YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed Through California Department of Education:			
Title I	84.010	3797	\$ 12,066,736
Title IV – Safe and Drug-Free Schools	84.186	3453	915,682
Title VI – Innovative Education Program Strategies	84.298	3340	284,772
Title VI – Class Size Reduction	84.340	3180	1,736,433
Title VII Emergency Immigrant Education Program	84.162	3159	153,145
Title II – Eisenhower	84.281	3207	226,410
Capital Expenses / Private Schools	84.216	Unknown	55,200
Indian Education	84.060	10011	309,170
JROTC	84.None	Unknown	92,722
Technology Literacy Challenge Fund	84.318	3285	711,307
Vocational Education Title II - Part C – Sec. 131	84.048	3577	499,190
Vocational Education Title II - Part C – Sec. 132	84.048	3577	26,415
Subtotal 84.048			<u>525,605</u>
Math Professional Development	84.276	Unknown	54,494
Student Academic Partnerships	84.276	Unknown	86,693
Subtotal 84.276			<u>141,187</u>
Adult Basic Education	84.002	3055	161,775
GED Services / Adult Secondary	84.002	Unknown	32,625
Subtotal 84.002			<u>194,400</u>
IDEA Part B (Special Education Cluster):			
Local Assistance	84.027	3379	3,357,495
Preschool Local Entitlement	84.027	3682	189,195
Federal Preschool	84.173	3430	212,162
Infant Discretionary	84.027	3612	50,985
Local Staff Development	84.027	3613	16,560
Pre-School Staff Development	84.173	3431	1,363
Low Incidence	84.027	3459	10,492
Early Intervention	84.181	3761	67,389
Workability I	84.027	3705	195,024
Subtotal Special Education Cluster			<u>4,100,665</u>
Total U.S. Department of Education			<u>21,513,434</u>
U.S. Department of Health and Human Services:			
Passed Through California Department of Health Services:			
Medi-Cal Option Billing	93.778	10013	814,279
Passed Through California Department of Education:			
Child Care and Development Block Grant	93.575	0172	4,255
Total U.S. Department of Health and Human Services			<u>818,534</u>
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care and Adult	10.558	3529	11,266
National School Lunch	10.555	Unknown	8,110,753
Total U.S. Department of Agriculture			<u>8,122,019</u>
Total Expenditures of Federal Awards			<u>\$ 30,453,987</u>

NOTE 1 -Non-cash assistance in the form of donated commodities was received from the California Department of Education as a pass-through grant from the U.S. Department of Agriculture. The total market value of the commodities received during 2001-02 was \$468,742.



**4STOCKTON UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT  
(UNAUDITED ACTUALS) WITH AUDITED FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2002**

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**AUDITOR'S COMMENTS**

All fund balances agreed to the unaudited actuals.

**4STOCKTON UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2002**

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**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 FINANCIAL TRENDS AND ANALYSIS**

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

**D. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

**E. RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS**

This schedule provides the information necessary to reconcile the fund equity of all funds and the total liabilities balance of the General Long-Term Debt Account Group as reported on the unaudited actuals to the audited financial statements.

**2. EARLY RETIREMENT INCENTIVE PROGRAM**

The District has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, during the year ended June 30, 2002.

**OTHER INDEPENDENT AUDITOR'S REPORTS**



**Gilbert Associates, Inc.**  
CPAs and Advisors

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING 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 the Stockton Unified School District (the District) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 9, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Findings and Recommendations Section as items 02-2, 02-3, and 02-4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Findings and Recommendations Section as item 02-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information of and use of the Board, management, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gilbert Associates, dnc.*

**GILBERT ASSOCIATES, INC.**

**October 9, 2002**



**Gilbert Associates, Inc.**  
CPAs and Advisors

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

**Board of Education  
Stockton Unified School District  
Stockton, California**

Compliance

We have audited the compliance of the Stockton Unified School District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Findings and Recommendations Section. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying Findings and Recommendations Section as items 02-3 and 02-4.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of and use of the Board, management, 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.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**

**October 9, 2002**



**Gilbert Associates, Inc.**  
CPAs and Advisors

**INDEPENDENT AUDITOR'S REPORT  
ON STATE COMPLIANCE**

**Board of Education  
Stockton Unified School District  
Stockton, California**

We have audited the financial statements of the Stockton Unified School District (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated October 9, 2002. In our report, our opinion was unqualified. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller'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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<b>Description</b>	<b>Procedures in Controller's Audit Guide</b>	<b>Procedures Performed</b>
Attendance Accounting:		
Attendance Reporting	4	Yes
Kindergarten Continuation	3	Yes
Independent Study	13	No (See Next Page)
Continuation Education	11	Yes
Adult Education	8	Yes
Regional Occupational Centers/Programs	4	Not Applicable
Staff Development Days	3	Yes
Incentives for Longer Instructional Day:		
School Districts	3	Yes
County Offices of Education	3	Not Applicable
Gann Limit Calculation	2	Yes
Early Retirement Incentive Program	5	Not Applicable
Community Day Schools	8	No (See Next Page)



Description	Procedures in Controller's Audit Guide	Procedures Performed
Class Size Reduction Program:		
Option one classes	11	Yes
Option two classes	10	Not Applicable
Option one and two classes	16	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Yes
State Instructional Materials		
K-8	10	Yes
9-12	7	Yes
Schiff-Bustamante Standards-Based		
Instructional Materials	9	Yes
Digital High School Education Technology		
Grant Program	5	Yes
California Public Schools Library Act of 1998	4	Yes
Office of Criminal Justice Planning	--	Not Applicable

We did not perform testing for Independent Study and Community Day Schools because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the District had not complied with the state laws and regulations, except as described in the Findings and Recommendations section of this report.

This report is intended solely for the information of and use of the Board, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Gilbert Associates, Inc.*

**GILBERT ASSOCIATES, INC.**

**October 9, 2002**

## **FINDINGS AND RECOMMENDATIONS SECTION**

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No

Reportable conditions identified not considered to be material weaknesses?   X   Yes        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

Reportable conditions identified not considered to be material weaknesses?   X   Yes        None Reported

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

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

Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.340</u>	<u>Title VI - Federal Class Size Reduction</u>
<u>84.010</u>	<u>Title I</u>
<u>84.027, 84.173, 84.181</u>	<u>Special Education Cluster</u>
<u>10.555</u>	<u>National School Lunch</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 913,620

Auditee qualified as low-risk auditee?        Yes   X   No

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

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*State Awards*

Internal control over major programs:

Material weakness(es) identified?

         Yes        X   No

Reportable conditions identified not  
considered to be material weaknesses?

  X   Yes               None Reported

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

Qualified

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**INTERNAL CONTROLS - REPORTABLE CONDITIONS**

**02-1. ASSOCIATED STUDENT BODY – CDDC #30000**

- 1. Finding:** We found at one school site tested that cash turned in to the school site ASB clerk was usually not accompanied by cash remittances or other documentation. Cash received by the ASB clerk should be supported by adequate documentation (i.e., pre-numbered receipts, tally sheets, or cash register tapes) in order to reconcile cash receipts to sales. Per the District's *Associated Student Body Activities Handbook* all deposit slips are to have attached supporting documentation. Adequate documentation over cash receipts discourages theft or loss of ASB funds.

**Recommendation:** The District should ensure that school site ASB clerks are trained in the proper procedures in order to implement control over cash received from advisors and students. Once controls are established at the site level, ASB clerks should reconcile the cash received to the documentation to ensure that all money from each event was turned in.

**District Response:**

Instructional training sessions have historically been provided to school staff. The sessions are designed to reinforce proper district procedures for Student Body accounting activities. However, additional mandatory training will be scheduled during the spring of 2003 and each year thereafter.

- 2. Finding:** For one school site tested we noted that it was not performing an inventory count at its student store. Assets in a student store are highly susceptible to theft and/or loss. In order to maintain adequate control over student store assets, an inventory should be taken quarterly, as outlined in the District's *Associated Student Body Activities Handbook*.

**Recommendation:** The principal should ensure that a student store inventory count is taken quarterly as required by the District's *Associated Student Body Activities Handbook* to enable the ASB clerk to reconcile cash receipts to sales and to reduce the risk of theft or loss of inventory.

**District Response:**

The District's internal auditing staff will develop a quarterly inventory schedule and monitor its implementation.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

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**SECTION III – STATE COMPLIANCE**

**02-2. KINDERGARTEN CONTINUATION – CDDC #10000**

**Finding:** California Education Code Section 46300 allows a district to claim apportionment credit for a kindergarten student who has already completed one school year, only if the district has on file an agreement signed by the student's parent or guardian. At one school site, we found that a continued kindergarten student had no signed agreement on file. We determined the effect of this condition to be an overstatement of .99 ADA, which equates to a fiscal effect of \$4,620.

**Recommendation:** For each kindergarten student who continues kindergarten, the principal should ensure that an agreement is signed by the student's parent or guardian and kept on file. If a parent or guardian agreement-to-continue is not kept on file, the District is not entitled to the base revenue limit earned for that student and it should be returned to the state.

**District Response:**

Principals will receive additional instruction on current district continuation policies and procedures. Additionally, internal audits will be performed to ensure that documentation is on file for students who continue in kindergarten.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

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**SECTION IV - FEDERAL COMPLIANCE**

**02-3. SPECIAL EDUCATION - GRANTS TO STATES (IDEA PART B) – CDDC #50000**

**Federal Agency:** U.S. Department of Education

**Award Year:** 2001-2002

**Catalog Number:** 84.027

**Name of Pass-Through Entity:** California Department of Education

**Specific Requirement That Was Not Complied With:**

Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, (attachment B, item 11[h]), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**Finding:**

We found that no time certifications were maintained to support salaries and benefits charged to IDEA Part B programs.

**Cause of Condition:**

Special Education staff were not aware of the compliance requirement regarding the time certifications.

**Amount of Questioned Costs and How Computed:**

Questioned costs consist of the entire amount of salaries and benefits charged to IDEA Part B programs, \$2,355,805.

**Recommendation:**

We recommend that the District prepare time certifications semi-annually and have them signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**District Response:**

Direction has been issued for schools to complete semi-annual time certifications. Completed time certifications will be monitored for compliance.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2002**

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02-4. FEDERAL CLASS SIZE REDUCTION - -- CDDC #50000

**Federal Agency:** U.S. Department of Education

**Award Year:** 2001-2002

**Catalog Number:** 84.340

**Name of Pass-Through Entity:** California Department of Education

**Specific Requirement That Was Not Complied With:**

Per OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, (attachment B, item 11[h]), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**Finding:**

We found that no time certifications were maintained to support salaries and benefits charged to federal Class Size Reduction.

**Cause of Condition:**

Federal Class Size Reduction staff were not aware of the compliance requirement regarding the time certifications.

**Amount of Questioned Costs and How Computed:**

Questioned costs consist of the entire amount of salaries and benefits charged to Federal Class Size Reduction, \$1,685,728.

**Recommendation:**

We recommend that the District prepare time certifications semi-annually and have them signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**District Response:**

Direction has been issued for schools to complete semi-annual time certifications. Completed time certifications will be monitored for compliance.



**STOCKTON UNIFIED SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**  
**YEAR ENDED JUNE 30, 2002**

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<b>Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
<b>INTERNAL CONTROLS – REPORTABLE CONDITIONS</b>		
01-1. STUDENT BODY FUNDS – CDDC #30000		
A. The district should examine internal controls related to student body accounting and determine if there are areas in which the site bookkeepers may benefit from additional training or guidance.	Implemented	
<b>STATE COMPLIANCE</b>		
01-2. KINDERGARTEN ENROLLMENT – CDDC #10000		
The District will need to amend the Second and Annual Reports of Attendance to remove the ADA claimed for two students who have not reached the age of five.	Amended Attendance Reports submitted.	
01-3. INSTRUCTIONAL MATERIALS – CDDC #40000		
The District should take the necessary steps to ensure that a public meeting is held and, if appropriate, pass the required resolution each year that the District receives State Instructional Materials entitlements. Failure to do so will result in a return of all funds received.	Current year hearing held in accordance with requirements.	
01-4. ATTENDANCE REPORT – FORM J18/19 ANNUAL - CDDC #40000		
The District should amend the Form J18/19 Annual Report of Attendance to reflect the change in the ADA caused by erroneous attendance calculation.	Amended reports submitted.	