

**STOCKTON UNIFIED SCHOOL DISTRICT**

**COUNTY OF SAN JOAQUIN  
STOCKTON, CALIFORNIA**

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

**YEAR ENDED JUNE 30, 2003**



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

DATE: 1-8-04

TO: \_\_\_\_\_

FROM: Carl Toliver, Deputy Superintendent

**Educational Services:**

- \_\_\_\_\_ Essa Allred – Secondary Education
- \_\_\_\_\_ Rupert Asuncion – Student Services
- \_\_\_\_\_ June Bond – Magnet, Desegregation/Special Projects
- \_\_\_\_\_ Lisa Kotowski – State & Federal Programs
- \_\_\_\_\_ Knute Momborg – Vocational Education
- \_\_\_\_\_ JoAnn Olmsted – Curriculum
- \_\_\_\_\_ Sofia Robledo – Elementary Education
- \_\_\_\_\_ Vernon Uyeda – Special Education
- \_\_\_\_\_ Dan Wright – Elementary Education
- \_\_\_\_\_ Kate Williams – Research & Evaluation
- \_\_\_\_\_ Bonnie Mansfield - Grantwriter
- \_\_\_\_\_ Robert Sahli – Curriculum/Technology
- \_\_\_\_\_

**Business Services:**

- Marilyn Domingo
- Wayne Martin
- Gene Wyllie

**Human Resources**

- \_\_\_\_\_ Allyn Bulzomi
- \_\_\_\_\_ Jess Serna
- \_\_\_\_\_ Tami Huber

- Rush – Immediate Action Desired
- Forwarded to you for appropriate action
- For your information/files
- Please prepare reply for my signature
- Please see me about this
- Please call me

Comments: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_



**JACK O'CONNELL**  
State Superintendent of Public Instruction

RECEIVED

JAN 7 - 2004

S.U.S.D.  
SUPERINTENDENT

CALIFORNIA  
DEPARTMENT  
OF  
EDUCATION

1430 N Street

P.O. Box 944272

Sacramento, CA

94244-2720

December 19, 2003

George E. Ridler, Superintendent  
Stockton City Unified School District  
701 N. Madison St.  
Stockton, CA 95202-1634

Dear Superintendent Ridler:

Pursuant to *Education Code* Section 41020, the State Superintendent of Public Instruction is responsible for ensuring the correction of audit exceptions that affect state funds and that are revealed in the annual audit of local educational agencies. In addition, federal regulations require that audit exceptions affecting federally funded programs also be resolved and that the California Department of Education (CDE) ensures that resolution.

During our review of your auditor's findings and recommendations for the 2002-2003 fiscal year we have identified specific findings which require additional follow up. In order to clear finding(s) 03-2, 03-3, 03-4, 02-3, please describe the specific corrective action which has been taken to resolve each finding and attach a copy of all documentation which confirms that action. If an audit finding requires the submission of revised attendance reports, please be sure to identify the certification number of the amended Second Principal Apportionment (P-2) and Annual Reports of Attendance. Please complete and submit the enclosed certification form along with your response and any corresponding documentation within four weeks of the date of this letter to:

California Department of Education  
School Fiscal Services Division  
1430 N Street, Suite 3800  
Sacramento, CA 95814  
Attention: Audit Resolution Staff

FAX: (916) 327-6157

*Education Code* Section 41020(i) specifies that county offices of education, rather than the CDE, are responsible for follow up on local educational agency audit findings related to attendance, inventory of equipment, internal control issues, and other miscellaneous items. In addition, *Education Code* Section 41020(k) specifies that county offices of education shall identify, and require submission of appropriate reporting forms for any attendance-related audit exception or exceptions involving state funds. Therefore, you may also receive separate communication from your county office of education in regard to these types of findings.

George E. Ridler, Superintendent  
December 19, 2003  
Page 2

If your annual audit report contains any apportionment significant audit findings, (i.e. findings that require repayment to the state of an amount equal to or greater than one unit of average daily attendance or its equivalent), then you should be aware of the processes involved in resolving these findings. *Education Code* Section 41344, as amended by Assembly Bill 2834 (Chapter 1128, Statutes of 2002), establishes time sensitive audit resolution processes. Therefore, action may be required within a specific number of days upon receipt of your audit report acceptance notification from the State Controller's Office. Information related to the audit resolution process can be found at the CDE Web site at [www.cde.ca.gov/fiscal/audit](http://www.cde.ca.gov/fiscal/audit). Information specifically related to the appeal processes can be found on the Education Audit Appeals Panel Web site at [www.eaap.ca.gov](http://www.eaap.ca.gov).

Should you need further information, please contact the School Fiscal Services Division, Audit Resolution Office, at (916) 323-8068.

Sincerely,



Scott Hannan, Director  
School Fiscal Services Division

cc: Fredrick A. Wentworth, Superintendent, San Joaquin County Office of Education  
Marilyn Domingo, Assistant Superintendent, Business Services, Stockton City Unified  
School District

**CERTIFICATION OF CORRECTIVE ACTION**  
**Resolution of 2002-03 Audit Findings**

December 19, 2003

LEA: Stockton City Unified School District

County: San Joaquin

CDS#: 39-68676

Superintendent's or Designee's Signature: \_\_\_\_\_  
(The Superintendent certifies that all corrective action(s) specified in the attached page(s) have been implemented and assures that the corrective procedures will be used in ensuing years.)

Contact Person: \_\_\_\_\_

Phone Number: \_\_\_\_\_

.....

**INSTRUCTIONS**

On a separate sheet, please describe the specific corrective action which has been taken for each audit finding identified. Be certain that your responses are clear and concise. You will need to provide all documentation that confirms specific actions resolving the problem, i.e., copies of amended reports, certification number of the amended P-2 and Annual Reports of Attendance, corrective action plans, etc.

Please sign and date this Certification of Corrective Action and submit the original certification form, response, and corresponding documentation to:

California Department of Education  
School Fiscal Services Division  
1430 N Street, Suite 3800  
Sacramento, CA 95814  
**Attn: Audit Resolution Staff**

FAX: (916) 327-6157

Your response must be submitted **within four weeks of the date of this letter.**

**For our records, please let us know if the Superintendent, Chief Business Officer and/or mailing address shown is incorrect.**

No Change

Please note the following change(s):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



FREDRICK A. WENTWORTH  
County Superintendent

## SAN JOAQUIN COUNTY OFFICE OF EDUCATION

DATE: November 19, 2003  
TO: School District Superintendents  
FROM: KT Yorba, Director  
District Business Services *[Signature]*  
SUBJECT: Resolution of Audit Findings

2003 NOV 25 PM 2:02  
SUSD  
BUSINESS SERVICES

The Education Code outlines the responsibilities of the California Department of Education, County Offices of Education and School Districts regarding the audit exceptions identified by a district's independent auditor.

Each county superintendent is responsible for reviewing the audit exceptions of their districts related to attendance, inventory of equipment, internal control, and miscellaneous items to determine whether the exceptions have been corrected or have an acceptable plan of correction.

In accordance with the requirements stated above, our office has created the following materials necessary to satisfy these legislative requirements:

**Enclosed with this mailing:**

- 2002-03 Audit Activity Reporting Calendar
- Audit Certification - Due by February 15, 2004
- Independent Auditor Selection Form - Due by February 15, 2004

**To be forwarded to the districts on or before January 31, 2004:**

- Certification of Corrective Action - Due by March 15, 2004
- Audit Finding Corrective Action Form - Due by March 15, 2004
- Copy of 2002-03 Audit Findings & Recommendations

Should you have questions regarding the completion of the audit forms, please contact Suzy Spadora at 468-4823 or Jeri Blote at 468-5907.

KT/jr

Enclosures: 3

cc: School District Chief Business Officials  
School District Financial Advisory Representatives  
Fredrick A. Wentworth, County Superintendent of Schools  
James C. Thomas, Deputy Superintendent, Business  
Karyn Dexter, Director, SJCOE Business Services  
K Sexsmith, Manager, District Financial Services  
Jeri Blote, Manager, District Fiscal Oversight  
Suzy Spadora, Account Specialist

Gaylord A. Nelson Education Center • 2901 Arch-Airport Road  
Post Office Box 213030 • Stockton, California 95213-9030  
Telephone (209) 468-4800



**SAN JOAQUIN COUNTY OFFICE OF EDUCATION**  
**FREDRICK A. WENTWORTH**  
**COUNTY SUPERINTENDENT**

**AUDIT ACTIVITY REPORTING CALENDAR**

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<u>DATE</u>	<u>RESPONSIBILITY</u>	<u>ACTIVITY</u>
November 30	County Office	On or before this date, the County Office will provide to the districts the Audit Certification Form; Audit Activity Reporting Calendar; and the Independent Auditor Selection Form.
December 15	Auditor	Audit reports shall be submitted to the State Controller, County Office of Education and the districts.
January 31	District	On or before this date, at a public meeting, the district board shall review and accept the annual audit. (EC 41020.3)
January 31	County Office	The County Office shall provide to the districts the Certification of Corrective Action and specific Audit Finding Corrective Action forms, which must be adopted by the Board and returned to the County Office by March 15.
February 15	District	<b>On or before this date, school districts shall submit to the County Office the Independent Auditor Selection Form for the current fiscal year.</b>
February 15	District	<b>On or before this date, school districts shall submit to the County Office the Audit Certification form.</b>
March 15	District	<b>On or before this date, school districts shall submit to the County Office the Certification of Corrective Action and specific Audit Finding Corrective Action forms adopted by their Governing Board.</b>
April 1	District	On or before this date, <u>ONLY</u> school districts <u>that have changed auditing firms and/or the contract commitment</u> must submit to the County Office verification that their Governing Board has approved the new contract for the current fiscal year.
April 15	County Office	The County Office will respond in writing to the districts regarding the adequacy of the Certification of Corrective Action identifying the areas that require further explanation, corrective action or a plan for correction.
April 30	District	Any additional information required of the school district must be submitted to the County Office by this date.
May 1	County Office	The County Office shall provide for an audit contract for any district that has not secured an auditor for the current fiscal year.



## AUDIT ACTIVITY REPORTING CALENDAR

<u>DATE</u>	<u>RESPONSIBILITY</u>	<u>ACTIVITY</u>
May 15	County Office	<p>In accordance with EC41020(k), the County Office shall certify to the Superintendent of Public Instruction (SPI) and the State Controller (SCO) that all district audits were reviewed and corrections were made, except as noted, or an acceptable plan was submitted.</p> <p>In addition, the County Superintendent shall identify any attendance-related audit exception that had a fiscal impact on State funds and require the school district to submit the appropriate forms for processing by the Superintendent of Public Instruction.</p>
	Auditors	<p>In accordance with EC41020(1), the independent audit firm will certify to the County Office regarding the status of the Certification of Corrective Action.</p>
	SPI	<p>In accordance with EC41020(m), the Superintendent of Public Instruction (SPI) shall be responsible for assuring that school districts have either corrected or developed a plan of correction for any or all of the following:</p> <ul style="list-style-type: none"><li>• All federal and state compliance audit exceptions identified in the audit.</li><li>• Any exceptions that the county superintendent certifies as of May 15 have not been corrected.</li><li>• Any repeat audit exceptions that are not assigned to a county superintendent to correct.</li></ul>
	State Controller	<p>In accordance with EC41020(n), the State Controller annually shall select a sampling of county superintendents of schools and perform a follow-up of the audit resolution process of those county superintendents of schools and report the results of that follow-up to the Superintendent of Public Instruction and the county superintendents of schools that were reviewed.</p>





**SAN JOAQUIN COUNTY OFFICE OF EDUCATION**  
**FREDRICK A. WENTWORTH**  
**COUNTY SUPERINTENDENT**

## **AUDIT CERTIFICATION - FINANCIAL REPORT/AUDIT**

**2002-03**

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**Stockton Unified School District**  
**San Joaquin County, California**

In accordance with Assembly Bill 3627, Chapter 1002, as it pertains to Education Code section 41020.3, the Governing Board must review and accept the prior year's Financial Report/Audit at a public meeting, on or before January 31st, and

THEREBY, as written verification of said review, the Governing Board reviewed and accepted on \_\_\_\_\_, 20\_\_\_ the Annual Financial Report as of June 30, 2003.

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District Superintendent's Signature

Date

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**FOR ADDITIONAL INFORMATION**

District Contact Person: \_\_\_\_\_ Phone: \_\_\_\_\_

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Submit the original and one copy of the Audit Certification by February 15, 2004.

**TO: San Joaquin County Office of Education**  
**KT Yorba, Director, District Business Services**  
**2901 Arch-Airport Road**  
**Stockton, CA 95206**



**SAN JOAQUIN COUNTY OFFICE OF EDUCATION**

**FREDRICK A. WENTWORTH**

**COUNTY SUPERINTENDENT**

**INDEPENDENT AUDITOR SELECTION FORM**

**for 2003-04 Fiscal Year**

**Stockton Unified School District**

**San Joaquin County, California**

In accordance with Education Code Section 41020, school districts must notify the County Superintendent of Schools of their selection for an independent audit firm. In the event the governing board of a school district has not selected an audit firm by April 1, the County Office will arrange for a firm to provide audit services.

Please complete SECTION I or II:

SECTION I - Multi-year contract continued 2003-04 Fiscal Year Audit Fee: \$ \_\_\_\_\_

or

SECTION II - Audit Firm: \_\_\_\_\_

Address: \_\_\_\_\_

City & Zip Code: \_\_\_\_\_

Audit Fee: \$ \_\_\_\_\_

If a multiple-year contract, state the fiscal years covered: \_\_\_\_\_

\_\_\_\_\_  
Authorized District Representative (Print Name)

\_\_\_\_\_  
Phone Number

\_\_\_\_\_  
District Representative's Signature

\_\_\_\_\_  
Date

Submit the Independent Auditor Selection Form by **February 15, 2004**.

**TO: San Joaquin County Office of Education  
KT Yorba, Director, District Business Services  
2901 Arch-Airport Road  
Stockton, CA 95206**

SUSD  
BUSINESS SERVICES

2004 MAR -7 PM 8:18



STEVE WESTLY  
California State Controller

Marilyn

February 27, 2004

RECEIVED  
MAR 09 2004  
S.U.S.D.  
SUPERINTENDENT

Stockton Unified  
701 North Madison Street  
Stockton, CA 95202

ATTENTION: SUPERINTENDENT

The State Controller's Office has completed its desk review of your annual audit report for the fiscal year ended June 30, 2003. As a result of the review, the Controller's Office certifies that the audit report conforms to the reporting standards contained in the State Controller's audit guide, *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Also, the Controller's Office determined that the report generally meets the requirements of the United States Office of Management and Budget (OMB) Circular A-133.

You may now release the portion of the audit fee withheld under the provisions of *Education Code* Section 14505.

If you have any questions regarding your annual audit, please call Mike Spalj, Audit Manager, at (916) 324-6984.

Sincerely,

A handwritten signature in cursive script that reads "Casandra Moore-Hudnall".

CASANDRA MOORE-HUDNALL, Chief  
Financial Audits Bureau  
Division of Audits

MAILING ADDRESS P.O. Box 942850, Sacramento, CA 94250-5874  
SACRAMENTO 300 Capitol Mall, Suite 518, Sacramento, CA 95814 (916) 324-8907  
LOS ANGELES 600 Corporate Pointe, Suite 1000, Culver City, CA 90230 (310) 342-5656



**STOCKTON UNIFIED SCHOOL DISTRICT**

**COUNTY OF SAN JOAQUIN  
STOCKTON, CALIFORNIA**

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

**YEAR ENDED JUNE 30, 2003**

**STOCKTON UNIFIED SCHOOL DISTRICT**

**YEAR ENDED JUNE 30, 2003**

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STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2003

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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, 2003, 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.

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, 2003, 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 17 and the budgetary comparison information on page 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2003 on our consideration of the District's internal control over financial reporting and our tests of 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 the 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.

A handwritten signature in cursive script that reads "Gilbert Associates, Inc." followed by a period.

**GILBERT ASSOCIATES, INC.**

**October 27, 2003**



## **Management's Discussion and Analysis**

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2003, 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 2003 fiscal year was \$314.6 million. Expenditures totaled \$315.2 million. Net assets decreased by \$.7 million. This represents a 0.5% decrease over the prior year.
- Capital assets, net of depreciation, increased by \$33.3 million. Projects completed during the year included the site modernization at Marshall Middle School, the expansion of the Rio Calaveras school site to accept students from Kindergarten through grade 8, the placement of 46 portable classrooms at 13 sites, the implementation of a new district-wide telephone system, and the completion of a number of deferred maintenance projects at school sites throughout the district.
- Construction neared completion for the George W. Bush Elementary School. Construction costs at June 30, 2003 totaled \$9.8 million. The school is scheduled to begin operation at the start of the 2003/2004 school year.
- Construction and modernization work continued at a number of other district school sites. Total costs expended on project work in progress totaled \$35.6 million at the end of the fiscal year. Included in the total is \$8.2 million for the planned Cesar Chavez High School, \$7.4 million for the modernization of A. A. Stagg High School, \$2.4 million for the modernization of Taylor Elementary School, and \$7.8 million for a number of modernization and deferred maintenance projects.
- Long-term debt increased by \$34.7 million due, in part, to the issuance of \$28.0 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:

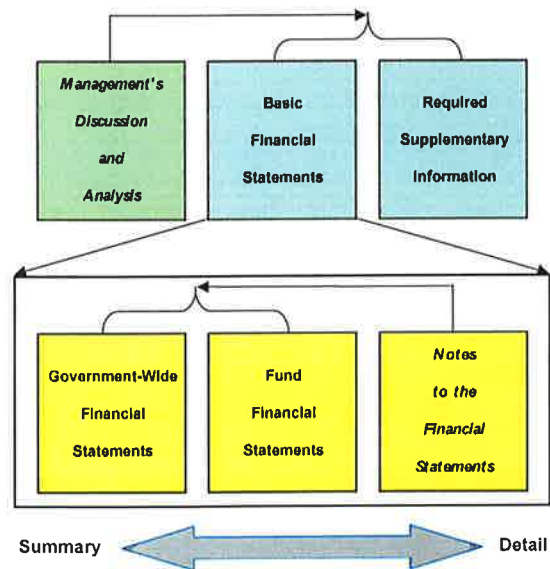
- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the district’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the district, reporting the district’s 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, 2003, is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2003	2002	
<b>Current and other assets:</b>			
Cash	\$ 80,192,174	\$ 93,462,048	\$ (13,269,874)
Receivables	20,893,130	20,470,067	423,063
Inventories	1,548,860	1,704,165	(155,305)
Other current assets	862,941	1,207,273	(344,332)
Capital assets, net of depreciation	151,520,839	118,200,964	33,319,875
<b>Total assets</b>	<b>255,017,944</b>	<b>235,044,517</b>	<b>19,973,427</b>
<b>Long-term debt outstanding</b>	<b>86,933,533</b>	<b>52,200,765</b>	<b>34,732,768</b>
Other liabilities	28,607,014	42,692,076	(14,085,062)
<b>Total liabilities</b>	<b>115,540,547</b>	<b>94,892,841</b>	<b>20,647,706</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	93,850,071	74,979,468	18,870,603
Restricted	21,488,991	25,566,745	(4,077,754)
Unrestricted	24,138,335	39,605,463	(15,467,128)
<b>Total Net Assets</b>	<b>\$ 139,477,397</b>	<b>\$ 140,151,676</b>	<b>\$ (674,279)</b>

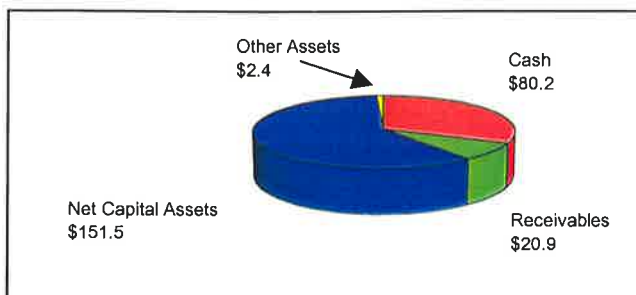
Total assets increased by a net total of \$20.0 million during the 2003 fiscal year. Cash accounts were reduced by \$13.3 million, while Capital assets, net of depreciation, increased by a total of \$33.3 million from the prior year. The increases to Capital assets will be more fully discussed later in this report.

Total liabilities increased by a net \$20.7 million. Long-term debt increased by \$34.7 million, in part from the issuance of General Obligation bonds in January of 2003. Other liabilities, including accounts payable and deferred revenue decreased by \$14.0 million. Long-term debt will also be discussed later in this report.

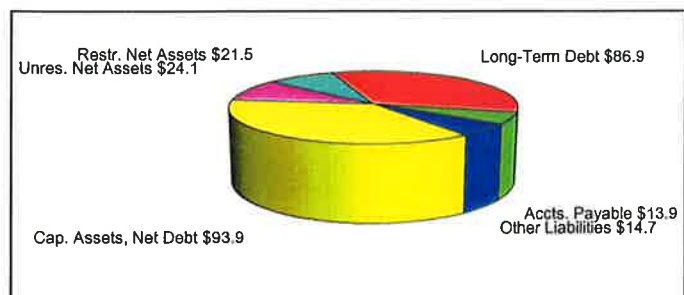
The difference between the \$20.0 million increase to Total assets and the \$20.7 million to Total liabilities results in a \$0.7 million decrease to Total Net Assets, a 0.5% change from the balance at June 30, 2002.

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)



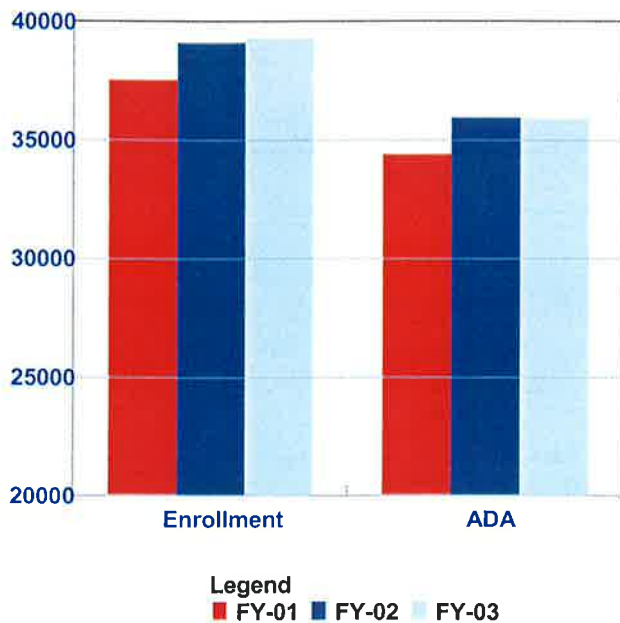


## Changes in Net Assets

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

	Government-Wide Activities		Year Over Year Change
	2003	2002	
<b>Revenues – Program:</b>			
Charges for Services	\$ 4,655,741	\$ 4,132,478	\$ 523,263
Operating Grants and Contributions	100,182,386	101,703,744	(1,521,358)
Capital Grants and Contributions	14,582,153	440,000	14,142,153
<b>Revenues – General:</b>			
Unrestricted Federal and State Aid	139,490,611	140,636,316	(1,145,705)
Taxes Levied for General Purposes	48,861,713	45,137,980	3,723,733
Taxes Levied for Debt Service	1,560,049	1,742,817	(182,768)
Interest and Investment Earnings	1,472,592	3,122,972	(1,650,380)
Other General Revenues	3,757,996	3,212,474	545,522
<b>Total Revenues</b>	<b>314,563,241</b>	<b>300,128,781</b>	<b>14,434,460</b>
<b>Expenses:</b>			
Instruction	192,978,559	178,166,908	14,811,651
Pupil and Instructional Services	74,158,118	71,131,707	3,026,411
General Administration	15,328,167	13,041,722	2,286,445
Plant Services	29,176,527	30,791,799	(1,615,272)
Other Expenses	3,596,149	3,508,435	87,714
<b>Total Expenses</b>	<b>315,237,520</b>	<b>296,640,571</b>	<b>18,596,949</b>
<b>Increase (Decrease) in Net Assets</b>	<b>(674,279)</b>	<b>3,488,210</b>	<b>(4,162,489)</b>
Net Assets, Beginning of the Year	140,151,676	136,663,466	3,488,210
Net Assets, End of the Year	\$ 139,477,397	\$ 140,151,676	\$ (674,279)

For the 2003 fiscal year, total district revenues were \$314.6 million. Total district expenses were \$315.2 million. The difference, \$0.7 million, is the decrease to net assets, reducing the total net assets at June 30, 2003 to \$139.5 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.

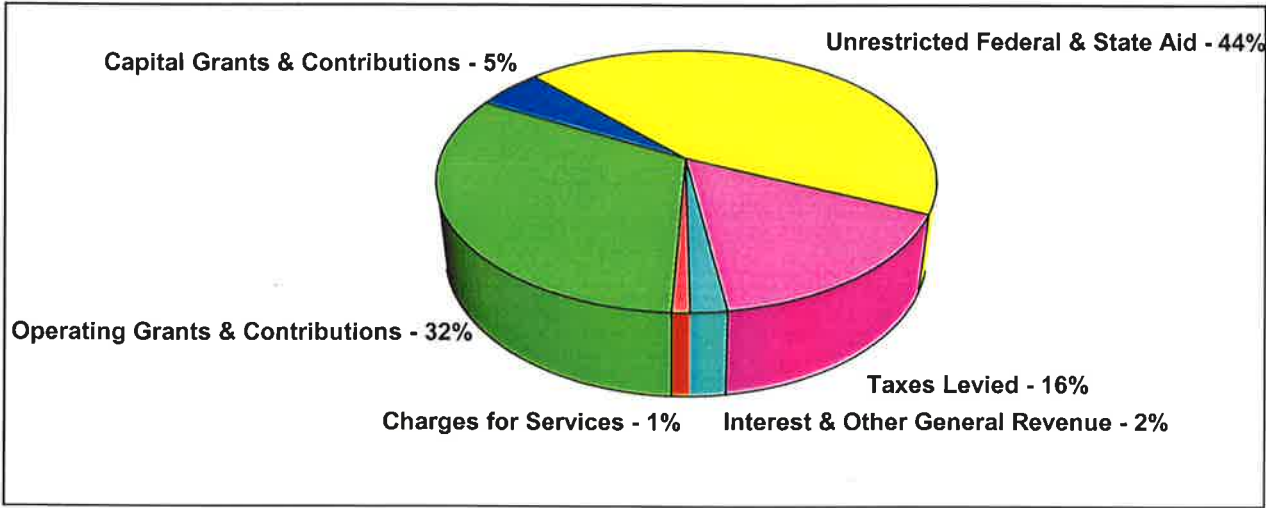
District enrollment continued to grow during the fiscal year, although at a slower rate. The graph presented to the left shows the growth in second month enrollment and Period 2 (P-2) ADA for fiscal years 2001, 2002, and 2003. Total second month enrollment in Grades K – 12 for the 2003 fiscal year was 39,312 students, a net increase of 200

students from the prior year. The primary area of enrollment growth was at the high school (Grades 9 – 12) level, where enrollment increased by 192 students.

The \$14.1 increase to Capital Grants and Contributions is due to funding received from the state for construction or modernization projects at Dolores Huerta Elementary School, Marshall Middle School and A. A. Stagg High School.

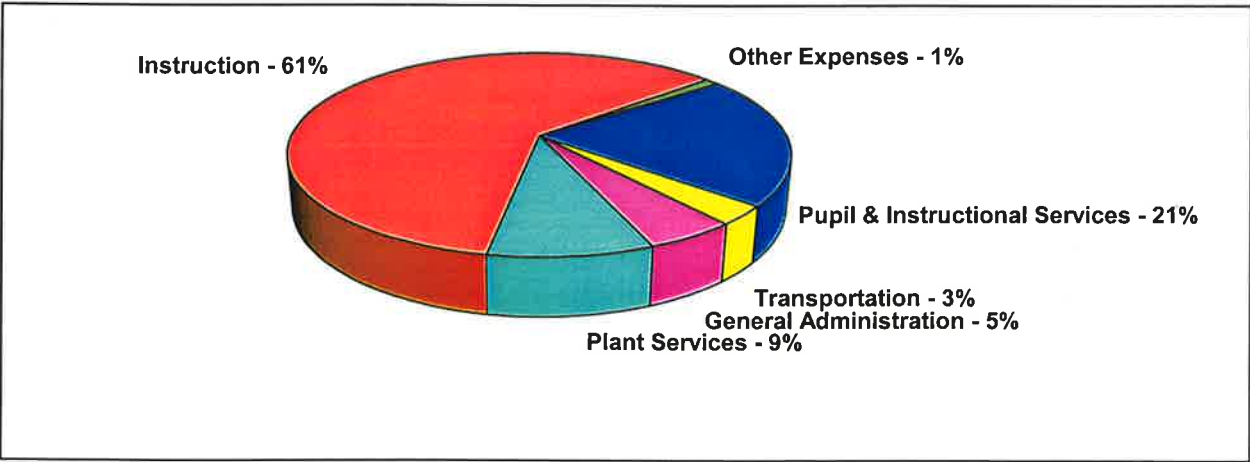
The following graph displays the Government-wide revenue sources by percentage.

**Revenue Sources by Percentage**



The graph below displays by percentage the Government-wide expenditure function totals.

**Functional Expenditures by Percentage**





## Governmental Activities

### Governmental Activities Expenditures

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Instruction, Instruction-related Services and Pupil Services	\$ 267,136,677	\$ 249,298,615	\$ 152,650,769	\$ 158,681,647
General Administrative and Plant Services	44,048,000	43,833,521	39,307,846	28,336,154
Ancillary Services	456,694	457,813	408,462	295,926
Totals	\$ 311,641,371	\$ 293,589,949	\$ 192,367,077	\$ 187,313,727

This table displays by function the total and net cost of services provided for the 2003 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.

### Financial Analysis of the District's Funds

At June 30, 2003, the district had thirteen governmental funds reporting a combined fund balance of \$66.1 million, a decrease of \$1.8 million over the prior year. Of these funds, nine had revenues that exceeded expenditures in 2003, contributing to the combined fund balance. The funds showing deficits had adequate reserves to cover these shortfalls. The following table details the fund balances of the individual governmental funds.

### Governmental Funds – Fund Balance

	Fund Balance - June 30,		Year Over Year Change
	2003	2002	
General Fund	\$ 28,749,905	\$ 42,356,333	\$ (13,606,428)
Charter Schools Special Revenue Fund	18,066	--	18,066
Adult Education Fund	2,988,023	2,566,658	421,365
Child Development Fund	157,918	139,330	18,588
Cafeteria Special Revenue Fund	6,189,190	5,930,636	258,554
Deferred Maintenance Fund	1,311,024	3,571,795	(2,260,771)
Building Fund	15,418,419	9,407,080	6,011,339
Capital Facilities Fund	3,052,246	1,388,375	1,663,871
County School Facilities Fund	4,464,976	202,512	4,262,464
Special Reserve for Capital Outlay Projects	1,277,246	381,263	895,983
Mello-Roos - Community Facilities District	443,192	86,902	356,290
Bond Interest and Redemption Fund	730,504	1,856,644	(1,126,140)
Tax Override Fund	22,699	25,550	(2,851)
Debt Service Fund	1,277,101	--	1,277,101
Totals	\$ 66,100,509	\$ 67,913,078	\$ (1,812,569)

## General Fund Budgetary Highlights

The District's 2003 General Fund operating budget was adopted by the Governing Board in June of 2002. As adopted, projected expenditures totaled \$277 million. Budgeted revenues totaled \$278 million, with revenues projected to exceed expenditures by approximately \$1 million. A Cost of Living Adjustment (COLA) of 1.66% 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.

The District also had to deal with a mid-year budget cut proposal by the Governor to address the state's financial crisis. Ultimate legislation reduced the impact for K-12 school agencies to specific cuts in targeted areas, the recapture of excess prior-year appropriations, and the use of deferrals for certain revenue items. As revised, the General Fund budget totaled \$312.1 million, with expenditures projected to exceed revenues by \$17.0 million.

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

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
<b>Revenue:</b>			
Revenue Limit	\$ 175,371,514	\$ 176,805,206	\$ (1,433,692)
Federal Revenue	28,752,942	42,507,248	(13,754,306)
Other State Revenue	68,160,977	71,605,401	(3,444,424)
Other Local Revenue	4,556,905	9,028,146	(4,471,241)
<b>Total Revenue</b>	<b>\$ 276,842,338</b>	<b>\$ 299,946,001</b>	<b>\$ (23,103,663)</b>

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
<b>Expenditures:</b>			
Certificated Salaries	\$ 145,568,099	\$ 145,113,415	\$ 454,684
Classified Salaries	46,261,707	46,101,980	159,727
Employee Benefits	50,731,451	49,998,142	733,309
Books and Supplies	19,622,925	41,248,599	(21,625,674)
Services, Other Operating Expenses	24,144,564	28,559,571	(4,415,007)
Capital Outlay	2,808,816	3,127,301	(318,485)
Other Outgo/ Direct Support/Indirect Costs	342,214	139,560	202,634
<b>Total Expenditures</b>	<b>\$ 289,479,776</b>	<b>\$ 314,288,568</b>	<b>\$ (24,808,792)</b>

Reasons for major differences between the actual results and the revised budget are discussed below.

- Revenue Limit income, composed of state aid and local property taxes, totaled \$1.4 million less than budget. The June apportionment payment was deferred until the 2004 fiscal year.
- Federal revenue was \$13.7 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 \$3.4 million less than budget due, in part, to budget cut revenue deferrals.
- Other local revenue was \$4.4 million less than budgeted. Interest rates trended lower during the year, resulting in less interest income earned on invested funds.
- The salaries of certificated personnel were \$.5 million higher than budget due to increases in teaching staff and for step and column movement on the teacher salary schedule.
- The books and supplies expenditure category was \$21.6 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 \$4.4 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 \$.3 million less than budgeted. Unexpended capital outlay balances using funds that can be carried over have been rebudgeted in the following year.

The table below displays actual General Fund revenue by major category for fiscal year 2003, along with the increase or decrease to fiscal year 2002 and breakdowns by percentage.

	General Fund			
	FY-2003 Amount	Percent Of Total	Increase (Decrease) from FY-2002	Percent Increase or (Decrease)
<b>Revenues:</b>				
Revenue Limit	\$ 175,371,514	63.3	\$ 4,235,482	2.5
Federal Revenue	28,752,942	10.4	6,533,643	29.4
Other State Revenue	68,160,977	24.6	(9,985,002)	(12.8)
Other Local Revenue	4,556,905	1.7	(1,569,926)	(25.6)
<b>Total Revenues</b>	<b>\$ 276,842,338</b>	<b>100.0</b>	<b>\$ (785,803)</b>	<b>(.3)</b>

Expenditures for the General Fund are reflected in the following table by major expenditure category.

	General Fund			
	FY-2003 Amount	Percent Of Total	Increase (Decrease) from FY-2002	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	\$ 145,568,099	50.3	\$ 5,839,424	4.2
Classified Salaries	46,261,707	16.0	(875,854)	(1.9)
Employee Benefits	50,731,451	17.5	7,345,499	16.9
Books and Supplies	19,622,925	6.8	(432,316)	(2.2)
Services, Other Operating Expenses	24,144,564	8.3	2,651,114	12.3
Capital Outlay	2,808,816	1.0	1,053,081	60.0
Other Outgo	1,146,887	.4	127,831	12.5
Direct Support/Indirect Costs	(804,673)	(.3)	(98,677)	14.0
<b>Total Expenditures</b>	<b>\$ 289,479,776</b>	<b>100.0</b>	<b>\$ 15,610,102</b>	<b>5.7</b>

The district's financial condition was severely tested during 2003 fiscal year and will continue to be in future operating years as a result of the uncertain state economic condition and change in governing leadership. 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	
	2003	2002
Land	\$ 11,472,205	\$ 10,215,330
Improvement of Sites	1,137,037	543,258
Buildings	98,209,185	91,261,437
Equipment	5,050,610	3,340,751
Construction in Progress	35,651,802	12,840,188
<b>Totals</b>	<b>\$ 151,520,839</b>	<b>\$ 118,200,964</b>

Capital assets in the table above are reflected at June 30, 2003 and 2002, 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 \$33.3 million during the year. Major capital asset additions completed or purchased during the year include the following:

✓ Land purchase	Cesar Chavez High School	\$1.2 million
✓ Modernization	Marshall Middle School	\$4.6 million
✓ Modernization	Edison High School	\$ .7 million
✓ Construction	Rio Calaveras Elementary Expansion	\$ .7 million
✓ Construction	King Elementary HVAC	\$ .9 million
✓ Portables	46 Portables at 13 school sites	\$1.5 million



A total of \$35.6 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 Taylor Elementary School, and construction and modernization work at other school sites within the district.

### Outstanding Debt at Year-End

	Government-Wide Activities	
	2003	2002
General Obligation Bonds	\$ 51,061,698	\$ 23,070,176
Certificates of Participation	15,015,000	15,465,000
Qualified Zone Academic Bonds Payable	1,635,000	1,635,000
Lighting Retrofit Payable	2,858,223	2,883,310
District-Wide Telephone System (VOIP)	2,266,571	--
State School Building Loan Payable	10,897	14,032
Compensated Absences	2,880,370	2,855,634
Other Postretirement Benefits	4,804,465	4,292,040
Claims Liability	6,159,511	1,577,419
Capital Leases	241,798	408,154
<b>Totals</b>	<b>\$ 86,933,533</b>	<b>\$ 52,200,765</b>

Outstanding debt increased by a net amount of \$34.7 million during the fiscal year. The increase primarily results from the issuance of \$28.0 million in General Obligation bonds, the second issuance from the \$80.0 million in bonds approved by district voters in November of 2000. 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 \$183.6 million, based on the total assessed valuation of taxable property within district boundaries of \$7.3 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.

In addition, a district-wide telephone system costing \$2.5 million has been financed under a lease/purchase agreement. Adjustments have also been made to reflect the liability for compensated absences, other postretirement benefits and estimated claims liability as of June 30, 2003. 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 beginning to show signs of recovery from the recession that began in 2001, and the state continuing to face major financial difficulties along with a change in governing leadership, the district's budget outlook is guarded.

The budget for fiscal year 2004 has been prepared utilizing budget assumptions based upon the Governor's January proposal and will be adjusted to reflect the funding provisions in the state budget

that was adopted by the Legislature and signed by the Governor during the summer. These provisions will have a negative impact on the operation of the district due to reductions to revenue sources coming from the state.

The budget has been adjusted for the opening of the George W. Bush Elementary School; the increased wage costs that result from health and step/column movement; and a student population growth of 350 students. Adjustments have been made for one-time allocations and categorical program carryover amounts. Unexpended amounts from categorical program budgets will be rebudgeted in fiscal year 2004 in the usual manner.

Revenue assumptions for fiscal year 2004 are as follows

✓ Reduction in the state-funded revenue limit	2.15%
✓ Reduction in the state-funded special education programs	3.66%
✓ Reduction in the state funded class size reduction program	11.12%
✓ Reduction in Staff Development Days funding	11.12%
✓ Reduction in Home-to-School Transportation funding	11.12%
✓ Reduction in state-funded categorical programs	11.12%

Reductions to revenue of this magnitude required a review of all district programs and functions. Certain programs and budgets were reduced to bring expenditures more in line with projected revenues. There was also a review of program outcomes and a refocusing of effort to areas of critical educational need within the district. These budget items were brought to the Board of Education in February of 2003 and were discussed during subsequent budget study sessions. Listed below are changes designed to meet the educational needs of our district students while attempting to stay within the restraints of reduced state funding.

- Reduce Central Office Budgets – (\$1,795,471). Each cabinet member was asked to review all department expenditures and staffing for possible budget reductions. A total of thirteen positions were identified for reduction, all accomplished through attrition. In addition, almost \$1.1 million in supplies and contracted services were slated for reduction.
- Revert to District Pre-CSR Formula – (\$5,718,300). During the 2001 fiscal year, positions were added to significantly reduce the student to teacher ratios. This item returns the ratios to the pre-2001 standards. A reduction of 94 positions is accomplished through attrition.
- New District K-12 Reading Program - \$6,174,000. Additional emphasis is placed on reading. This program will deploy 99 resource teachers to provide instruction to students needing assistance in reading proficiency. Appropriate methods at the elementary, middle, and high school levels will be used to identify students qualifying for assistance, with the resource teachers being used to meet the student needs.
- Eliminate the Morgan-Hart 9<sup>th</sup> Grade Class Size Reduction Program – (\$490,904). This program provided a reduced class size in 9<sup>th</sup> grade English classes. Over the years, state funding for the program has not kept up with expenditures. By eliminating the program, a significant program encroachment can be avoided. Teachers removed for the program will be offered positions in academic areas for which they are qualified.
- Reduce District Contribution to Workers Compensation – (\$1,225,000). In fiscal year 2003, the district began a self-insured Workers Compensation program. Rates were kept at the same level as when the district was a member of the San Joaquin JPA. The annual budget was \$4.5 million. After careful review of the reserves and current utilization reports, this

reduction in rate for fiscal year 2004 will not impair the program or place the district at risk. At mid-year 2004, a review will again be made to determine if a rate change is necessary for the following claim year.

- Reduce Scheduled Maintenance by the Equivalent of One Team – (\$415,316). Three teams presently provide scheduled/preventative maintenance to district buildings. This reduction, primarily made through attrition, will eliminate seven positions, the equivalent of one team. At the present time, there are three vacant positions.
- Reduce Overtime by One-Third – (\$200,000). Overtime for all departments will be provided only on the basis of emergency, safety, or critical property basis. Many departments cannot avoid overtime to meet hard deadlines or to provide safety/property services to our school sites. Each manager will be required to monitor overtime and reduce as appropriate.
- Reduce State Categorical Budgets to the Funded Level – (\$3,013,483). As previously indicated, the governor's original budget reduced almost all categorical programs by approximately 11.12%. Each school site will be required to reduce its school program costs to match the revenue received. At this time, it is undeterminable what will be reduced at each school site. As the schools submit their adjusted budgets for fiscal year 2004, the reductions will be integrated as necessary.
- Reduce Campus Security Monitors by One Per School – (\$266,000). This reduction will recover seven positions. Currently, five vacancies exist that can be taken by attrition for this reduction.
- Reduce the Deferred Maintenance Contribution – (\$132,000). The state provides funding by formula for deferred maintenance. The district is required to match that amount each year. For fiscal year 2004, the state has reduced the allocation to school districts that, in turn, reduces the amount required as a district contribution for the matching of funds.
- Reduce Expenses of Hourly Reading and Summer Program to Revenue – (\$434,000). Summer school and hourly reading programs generate funding from the revenue limit. Some years ago, the district augmented these programs with unrestricted dollars, most likely to get the reading programs started. The programs are now on solid funding ground and the previous district contribution can now be removed. This budget reduction will have no effect on the services we are able to provide students in these programs.

In addition, district reserves will be used to finance approximately \$2.6 million of the budget reduction.

Capital project expenditures have been included in the fiscal year 2004 budget, as funding for these projects will come primarily from the proceeds of the two recent bond issues. Scheduled expenditures include:

- ✓ Completion of the construction work for the George W. Bush Elementary School
- ✓ Continuing construction work for the Cesar Chavez High School
- ✓ Modernization of Hazelton and McKinley Elementary Schools, and Stagg High School
- ✓ Planned relocation of Kohl Elementary School
- ✓ Start of construction for the Maxine Hong-Kingston Middle School
- ✓ Start of modernization of Washington Elementary School, and Fremont, Hamilton and Webster Middle Schools

The staggering state budget deficit has created fiscal chaos for all state-funded programs. The uncertainty of state economics demands extraordinary attention to budgetary matters over the next few years. The budget for 2004 provides a fiscal plan that allows the district to continue academic and capital improvements by utilizing all available resources, including the fund balance. We will continue to watch the activities of state officials carefully to pro-actively plan for any future changes in funding or policy.

### **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, 2003

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and equivalents	\$ 80,192,174
Receivables	20,893,130
Inventories	1,548,860
Prepaid expenditures	862,941
Capital assets:	
Land	11,472,205
Improvement of sites	3,479,217
Buildings	173,077,350
Machinery and equipment	9,785,845
Work in progress	35,651,802
Less accumulated depreciation	<u>(81,945,580)</u>
Total assets	<u>255,017,944</u>
<b>LIABILITIES</b>	
Accounts payable	13,870,308
Deferred revenue	14,736,706
Long-term liabilities due within one year:	
Debt	1,939,670
Compensated absences	288,037
Postemployment benefits	960,893
Claims and judgments	2,032,639
Long-term liabilities due in more than one year:	
Debt	71,149,517
Compensated absences	2,592,333
Postemployment benefits	3,843,572
Claims and judgments	<u>4,126,872</u>
Total liabilities	<u>115,540,547</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	93,850,071
Restricted for:	
Capital projects	8,794,467
Debt service	2,030,304
Educational programs	15,986,815
Other purposes (expendable)	7,500,213
Unrestricted	<u>11,315,527</u>
Total net assets	<u>\$ 139,477,397</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2003

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
Governmental activities:					
Instruction	\$ 192,978,559	\$ 2,058,492	\$ 61,702,113	\$ 14,582,153	\$ (114,635,801)
Instruction-related services:					
Supervision of instruction	16,782,245	200,813	9,913,067		(6,668,365)
Instructional library, media, and technology	1,855,431	2,497	386,031		(1,466,903)
School site administration	19,860,106	96,264	2,590,380		(17,173,462)
Pupil services:					
Pupil transportation	8,647,692	160,269	5,879,174		(2,608,249)
Food services	10,387,739	1,902,184	8,834,925		349,370
Other pupil services	16,624,905	121,938	6,055,608		(10,447,359)
Ancillary services	456,694		48,232		(408,462)
General administration:					
Data processing services	3,902,789				(3,902,789)
Other general administration	10,968,684	96,285	2,779,382		(8,093,017)
Plant services	29,176,527	16,668	1,847,819		(27,312,040)
Interest on debt	2,647,391				(2,647,391)
Other outgo	616,573	331	145,655		(470,587)
Depreciation, unallocated	332,185				(332,185)
Totals	<u>\$ 315,237,520</u>	<u>\$ 4,655,741</u>	<u>\$ 100,182,386</u>	<u>\$ 14,582,153</u>	<u>(195,817,240)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					48,861,713
Taxes levied for debt service					1,560,049
Federal and state aid not restricted to specific purposes					139,490,611
Interest and investment earnings					1,472,592
Transfers from other agencies					174,602
Miscellaneous revenue					3,583,394
Total general revenues					<u>195,142,961</u>
Decrease in net assets					(674,279)
Net assets – beginning					<u>140,151,676</u>
Net assets – ending					<u>\$ 139,477,397</u>

# STOCKTON UNIFIED SCHOOL DISTRICT

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2003

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and equivalents	\$ 34,468,845	\$ 20,346,419	\$ 20,705,197	\$ 75,520,461
Receivables	14,849,801	72,000	2,314,875	17,236,676
Due from other funds	1,691,687		6,152,381	7,844,068
Inventories	1,170,938		377,923	1,548,861
Prepaid expenditures	54,460		2,173	56,633
<b>Total assets</b>	<b><u>\$ 52,235,731</u></b>	<b><u>\$ 20,418,419</u></b>	<b><u>\$ 29,552,549</u></b>	<b><u>\$ 102,206,699</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 7,947,205		\$ 4,778,452	\$ 12,725,657
Due to other funds	1,402,931	\$ 5,000,000	2,240,896	8,643,827
Deferred revenue	14,135,691		601,015	14,736,706
<b>Total liabilities</b>	<b><u>23,485,827</u></b>	<b><u>5,000,000</u></b>	<b><u>7,620,363</u></b>	<b><u>36,106,190</u></b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Revolving cash	70,000		1,523	71,523
Inventories	1,170,938		377,923	1,548,861
Prepaid expenditures	54,459		2,173	56,632
Debt service			2,030,304	2,030,304
Legally restricted programs	12,822,808			12,822,808
<b>Unreserved, reported in:</b>				
General fund	14,631,699			14,631,699
Special revenue funds			10,282,604	10,282,604
Capital projects funds		15,418,419	9,237,659	24,656,078
<b>Total fund balances</b>	<b><u>28,749,904</u></b>	<b><u>15,418,419</u></b>	<b><u>21,932,186</u></b>	<b><u>66,100,509</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 52,235,731</u></b>	<b><u>\$ 20,418,419</u></b>	<b><u>\$ 29,552,549</u></b>	<b><u>\$ 102,206,699</u></b>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## RECONCILIATION, GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2003

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<b>Total fund balances, total governmental funds</b>	<b>\$ 66,100,509</b>
Amounts reported for governmental activities in the statement of net assets are different because of the following:	
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 \$233,466,419 and the accumulated depreciation is \$81,945,580.	151,520,839
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.	2,156,212
The District uses internal service funds to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the statement of net assets.	728,803
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, net of unamortized premiums, discounts, and deferred charges, are included in governmental activities in the statement of net assets.	<u>(81,028,966)</u>
<b>Total net assets, governmental activities</b>	<b><u>\$ 139,477,397</u></b>

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
State apportionment	\$ 126,509,802		\$ 3,581,513	\$ 130,091,315
Local sources	48,861,712			48,861,712
Total revenue limit	175,371,514		3,581,513	178,953,027
Federal revenues	28,752,942		8,969,073	37,722,015
Other state revenues	68,160,977		18,247,563	86,408,540
Other local revenues	4,556,905	\$ 194,814	6,898,604	11,650,323
Total revenues	276,842,338	194,814	37,696,753	314,733,905
<b>EXPENDITURES</b>				
Current:				
Instruction	179,513,104		5,025,411	184,538,515
Instruction-related services:				
Supervision of instruction	16,347,725		204,607	16,552,332
Instructional library, media, and technology	2,003,773		40,152	2,043,925
School site administration	19,032,273		686,580	19,718,853
Pupil services:				
Pupil transportation	8,405,280			8,405,280
Food services	34,531		10,087,778	10,122,309
Other pupil services	16,154,791		416,274	16,571,065
Ancillary services	456,694			456,694
General administration:				
Data processing services	5,247,623			5,247,623
Other general administration	10,043,547		804,673	10,848,220
Plant services	28,076,224		1,130,397	29,206,621
Debt service:				
Principal	317,941		559,279	877,220
Interest and other charges	233,550		3,597,145	3,830,695
Capital outlay	3,017,319	10,275	35,466,078	38,493,672
Transfers to other agencies	595,401			595,401
Total expenditures	289,479,776	10,275	58,018,374	347,508,425
Excess (deficiency) of revenues over expenditures	(12,637,438)	184,539	(20,321,621)	(32,774,520)
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	94,544		37,617,121	37,711,665
Debt proceeds		28,226,800		28,226,800
Other sources	2,500,610		139,997	2,640,607
Interfund transfers out	(3,564,145)	(22,400,000)	(11,652,976)	(37,617,121)
Total other financing sources (uses)	(968,991)	5,826,800	26,104,142	30,961,951
Net increase (decrease) in fund balances	(13,606,429)	6,011,339	5,782,521	(1,812,569)
Fund balances -- beginning	42,356,333	9,407,080	16,149,665	67,913,078
Fund balances -- ending	\$ 28,749,904	\$ 15,418,419	\$ 21,932,186	\$ 66,100,509

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## RECONCILIATION, GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES JUNE 30, 2003

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Net decrease in fund balances, total governmental funds \$ (1,812,569)

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

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 outlay (\$38,541,185) exceeds depreciation expense (\$5,221,310) in the period. 33,319,875

Proceeds from debt provide current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the statement of net assets. This amount is the net effect of proceeds and issuance costs. (32,331,933)

Repayment of the principal of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net assets. 2,209,122

Premiums, discounts, and other 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. (9,309)

Revenues that were earned in the prior period, but were not available under modified accrual basis of accounting, and were therefore not accrued in the funds of the prior period. (158,696)

Increases in the liability for compensated absences 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. (24,736)

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 and the prior year accrual is reversed in the current year. The amount represents the net interest accruals. 662,895

The District uses internal service funds 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. (2,528,928)

Decrease in net assets, governmental activities \$ (674,279)

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF FUND NET ASSETS PROPRIETARY FUNDS JUNE 30, 2003

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and equivalents	\$ 4,671,709
Receivables	1,500,243
Due from other funds	800,000
Prepaid expenses	<u>75,567</u>
Total assets	<u>7,047,519</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	158,964
Due to other funds	241
Long-term liabilities due within one year:	
Claims and judgments	<u>2,032,639</u>
Total current liabilities	2,191,844
Long-term liabilities due in more than one year:	
Claims and judgments	<u>4,126,872</u>
Total liabilities	<u>6,318,716</u>
<b>NET ASSETS</b>	
Unrestricted	<u>728,803</u>
Total net assets	<u>\$ 728,803</u>

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2003

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b>OPERATING REVENUES</b>	
Charges for services	<u>\$ 10,237,267</u>
<b>OPERATING EXPENSES</b>	
Claims and administration	10,127,087
Services and other operating expenses	<u>2,697,828</u>
Total operating expenses	<u>12,824,915</u>
Operating loss	<u>(2,587,648)</u>
<b>NONOPERATING REVENUES</b>	
Interest and investment earnings	<u>58,720</u>
Loss before transfers	(2,528,928)
Interfund transfers out	<u>(94,544)</u>
Decrease in net assets	(2,623,472)
Net assets – beginning	<u>3,352,276</u>
Net assets – ending	<u>\$ 728,804</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, 2003

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 9,573,454
Claims paid	(4,109,888)
Payments to suppliers	(3,470,144)
Net cash provided by operating activities	<u>1,993,422</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	<u>(94,544)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	<u>58,720</u>
Net increase in cash	1,957,598
Balances – beginning of year	<u>2,714,111</u>
Balances – end of year	<u>\$ 4,671,709</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating loss	\$ (2,587,648)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Receivables	136,187
Due from other funds	(800,000)
Prepaid expenses	596,108
Accounts payable	69,188
Due to other funds	(2,507)
Claims and judgments	<u>4,582,094</u>
Net cash provided by operating activities	<u>\$ 1,993,422</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2003

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Current assets:	
Cash and equivalents	\$ 2,975,486
Receivables	(2,224)
Prepaid expenses	<u>432,714</u>
Total assets	<u>\$ 3,405,976</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 1,610,058
Due to student groups and other agencies	<u>1,795,918</u>
Total liabilities	<u>\$ 3,405,976</u>

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

# STOCKTON UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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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, 2003

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### C. 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.

**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 as other governmental funds. 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 include 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 Fund Net Assets. The Statement of Revenues, Expenses, and 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.

# STOCKTON UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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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 internal service funds are charges to other funds for employee self-insurance claims and post-employment benefit payments. Operating expenses of internal service funds include the costs of insurance premiums and claims related to self-insurance and post-employment benefits.

The District applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 and all Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting for its proprietary operations.

Fiduciary funds are reported using the economic resources measurement focus.

### D. 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 fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

**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 districts 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 are those 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, under 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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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**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 been offset with deferred revenue.

**Expenses/Expenditures** – Under the accrual basis of accounting, expenses are recognized at the time they are incurred. However, 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 on governmental fund financial statements.

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.

E. FUND ACCOUNTING

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

Major Governmental Funds

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.

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

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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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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.

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

**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.

The **Debt Service Fund** is used for the accumulation of resources for and the retirement of principal and interest on long-term debt.

**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 **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 **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.

The **Mello-Roos Fund** is used to account for the construction and acquisition of major capital facilities that are financed by Mello-Roos taxes.

*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 insurance 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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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Fiduciary Funds

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

**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.

F. 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.

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 budget for the General Fund is 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.

G. 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 equivalents.

H. STORES INVENTORIES AND PREPAID EXPENDITURES

Inventories are recorded using 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.



**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

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

**I. 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>Asset Class</u>	<u>Years</u>
Improvement of Sites	20
Buildings	20-50
Machinery and Equipment	5-30

**J. 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 expenditure 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.

**K. 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 reflect 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.

**L. 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.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

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**M. LONG-TERM OBLIGATIONS**

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

**N. USE OF ESTIAMTES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

**2. CHARTER SCHOOLS**

The Stockton Unified School District operates the James L. Urbani Institute of Language Development pursuant to *Education Code* Section 47605. The financial activities of the James L. Urbani Institute of Language Development are presented as a Special Revenue Fund (See Note 1).

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

The Treasury 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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

Cash on Hand, in Banks, and in Revolving Fund

As of June 30, 2003, the carrying amount of the District's bank deposits was \$1,945,254 and the bank balance was \$2,051,703. Of the bank balance, \$253,552 was insured by the Federal Depository Insurance Corporation and \$752,653 is held in "Public Funds", which are guaranteed by the financial institution for up to 110% of the account balance. The remainder, \$1,045,498, was covered by collateral held in the pledging financial institutions' trust departments in the District's name. Cash on hand of \$3,922 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 invested in derivatives by the San Joaquin County Treasury was not available.

**4. ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following as of June 30, 2003:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Federal government	\$ 2,732,531		\$ 1,740,732	\$ 4,473,263
State government	6,497,673		279,277	6,776,950
Local government	5,489,597		245,066	5,734,663
Interest	<u>130,000</u>	\$ <u>72,000</u>	<u>49,800</u>	<u>251,800</u>
Totals	\$ <u>14,849,801</u>	\$ <u>72,000</u>	\$ <u>2,314,875</u>	\$ <u>17,236,676</u>

Included in receivables in the government-wide financial statements is a receivable for a favorable settlement relating to special education programs and services in the amount of \$1,219,097. This receivable will be collected by the District over the next eight years.

**5. 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

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

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, 2003 were as follows:

Payable Fund	Receivable Fund			Total
	General Fund	Other Governmental Funds	Internal Service Funds	
General Fund		\$ 602,931	\$ 800,000	\$ 1,402,931
Building Fund		5,000,000		5,000,000
Other Governmental Funds	\$ 1,691,446	549,450		2,240,896
Internal Service Funds	241			241
<b>Totals</b>	<b>\$ 1,691,687</b>	<b>\$ 6,152,381</b>	<b>\$ 800,000</b>	<b>\$ 8,644,068</b>

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

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, 2003 were as follows:

Transfers Out	Transfers In		Total
	General Fund	Other Governmental Funds	
General Fund		\$ 3,564,145	\$ 3,564,145
Building Fund		22,400,000	22,400,000
Other Governmental Funds		11,652,976	11,652,976
Internal Service Funds	\$ 94,544		94,544
<b>Total</b>	<b>\$ 94,544</b>	<b>\$ 37,617,121</b>	<b>\$ 37,711,665</b>

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

**6. CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2003</u>
Capital assets, not being depreciated:				
Land	\$ 10,215,330	\$ 1,256,875		\$ 11,472,205
Construction in progress	12,840,188	34,078,250	\$ 11,266,636	35,651,802
Total capital assets, not being depreciated	<u>23,055,518</u>	<u>35,335,125</u>	<u>11,266,636</u>	<u>47,124,007</u>
Capital assets, being depreciated:				
Improvement of sites	2,812,320	666,897		3,479,217
Buildings	161,810,714	11,266,636		173,077,350
Machinery and equipment	7,246,682	2,539,163		9,785,845
Total capital assets, being depreciated	<u>171,869,716</u>	<u>14,472,696</u>		<u>186,342,412</u>
Less accumulated depreciation for:				
Improvement of sites	(2,269,062)	(73,118)		(2,342,180)
Buildings	(70,549,277)	(4,318,888)		(74,868,165)
Machinery and equipment	(3,905,931)	(829,304)		(4,735,235)
Total accumulated depreciation	<u>(76,724,270)</u>	<u>(5,221,310)</u>		<u>(81,945,580)</u>
Total capital assets, being depreciated, net	<u>95,145,446</u>	<u>9,251,386</u>		<u>104,396,832</u>
Governmental activities capital assets, net	<u>\$ 118,200,964</u>	<u>\$ 44,586,511</u>	<u>\$ 11,266,636</u>	<u>\$ 151,520,839</u>

For the year ended June 30, 2003, depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 4,324,910
Pupil transportation	266,158
Food services	76,638
Data processing services	47,016
Plant services	32,709
Other general administration	141,694
Depreciation (unallocated portion)	<u>332,185</u>
Total depreciation expense	<u>\$ 5,221,310</u>

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

**7. 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>
2004	\$ 16,000	\$ 1,141,356	\$ 1,157,356
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	640,000	1,009,406	1,649,406
2009-2013	3,685,000	4,497,495	8,182,495
2014-2018	4,590,000	3,514,641	8,104,641
2019-2023	5,845,000	2,245,375	8,090,375
2024-2028	5,865,000	616,726	6,481,726
Subtotal	22,331,000	16,258,417	38,589,417
Plus: Unamortized Premium	243,586	0	243,586
Totals	<u>\$ 22,574,586</u>	<u>\$ 16,258,417</u>	<u>\$ 38,833,003</u>

General Obligation Bonds

In January 2003, the District issued General Obligation Bonds in the amount of \$28,000,000, with interest rates ranging from 3% to 5.25%.

The bonds mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004		\$ 1,198,082	\$ 1,198,082
2005	\$ 690,000	1,276,604	1,966,604
2006	720,000	1,241,564	1,961,564
2007	750,000	1,205,564	1,955,564
2008	785,000	1,183,064	1,968,064
2009-2013	4,435,000	5,506,982	9,941,982
2014-2018	5,410,000	4,547,374	9,957,374
2019-2023	6,720,000	3,083,978	9,803,978
2024-2028	8,490,000	1,302,074	9,792,074
Subtotal	28,000,000	20,545,286	48,545,286
Plus: Unamortized Premium	487,112		487,112
Totals	<u>\$ 28,487,112</u>	<u>\$ 20,545,286</u>	<u>\$ 49,032,398</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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, 2003, the principal balance outstanding was \$15,015,000.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	575,000	693,640	1,268,640
2009-2013	3,380,000	2,996,294	6,376,294
2014-2018	4,450,000	1,984,255	6,434,255
2019-2022	4,580,000	632,907	5,212,907
Totals	<u>\$ 15,015,000</u>	<u>\$ 9,337,422</u>	<u>\$ 24,352,422</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, 2003**

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>
2004	\$ 345,251	\$ 94,466	\$ 439,717
2005	357,114	82,603	439,717
2006	369,385	70,332	439,717
2007	382,077	57,640	439,717
2008	395,206	44,511	439,717
2009-2011	<u>1,009,190</u>	<u>52,367</u>	<u>1,061,557</u>
Totals	<u>\$ 2,858,223</u>	<u>\$ 401,919</u>	<u>\$ 3,260,142</u>

State School Building Loans Payable

State school building loan activity for the year ended June 30, 2003 was as follows:

<u>Balance July 1, 2002</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2003</u>
\$ 14,032	\$ _____	\$ 3,135	\$ 10,897

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. As of June 30, 2003, 265 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 \$817,215 were recognized for postretirement health care benefits. The liability at June 30, 2003 is \$4,804,465 and is based on the estimated lives of participants.



**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

Capital Leases

The District leases telephone equipment under an agreement that provide for title to pass upon expiration of the lease period. Future minimum lease payments as of June 30, 2003 are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2004	\$ 623,897
2005	623,897
2006	607,078
2007	556,623
2008	<u>275,735</u>
Total	2,687,230
Less Amount Representing Interest	<u>(178,861)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,508,369</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2003 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 - 2001	\$ 23,070,176		\$ 495,590	\$ 22,574,586	\$ 546,591
General Obligation Bonds - 2003		\$ 28,497,053	9,941	28,487,112	19,882
Certificates of Participation	15,465,000		450,000	15,015,000	470,000
Qualified Zone Academy Bonds	1,635,000			1,635,000	
CA Energy Commission Loan	2,883,310	2,858,223	2,883,310	2,858,223	345,251
State School Building Loans	14,032		3,135	10,897	3,135
Post-Employment Benefits	4,292,040	1,329,640	817,215	4,804,465	960,893
Claims Liability (Note 7)	1,577,419	8,691,980	4,109,888	6,159,511	2,032,639
Capital Leases		2,742,408	234,039	2,508,369	554,811
Compensated Absences	2,855,634	24,736		2,880,370	288,037
Other Long term Liabilities	<u>408,154</u>		<u>408,154</u>		
Total	<u>\$ 52,200,765</u>	<u>\$ 44,144,040</u>	<u>\$ 9,411,272</u>	<u>\$ 86,933,533</u>	<u>\$ 5,221,239</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

8. 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. The District also maintains worker's compensation insurance with a commercial carrier for claims up to \$2,000,000 with a deductible of \$350,000 per incident. During the year ended June 30, 2003, the District participated in two 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 \$6,159,511 at June 30, 2003 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, 2003 and 2002 are as follows:

	Liability Beginning of Year	Claims and Changes in Estimates	Claims Payments	Liability End of Year
2002-2003	\$ 1,577,419	\$ 8,691,980	\$ (4,109,888)	\$ 6,159,511
2001-2002	\$ 1,577,419	\$ 2,657,762	\$ (2,657,762)	\$ 1,577,419

9. 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.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2003**

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Condensed audited financial information for NCSReLiEF for the year ended June 30, 2003 is as follows:

Total Assets	\$ 27,149,663
Total Liabilities	\$ 18,878,610
Retained Earnings	8,271,053
	<u>\$ 27,149,663</u>
Total Revenues	\$ 23,319,977
Total Expenses	21,888,273
Net Increase in Retained Earnings	<u>\$ 1,431,704</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.

Condensed audited financial information for SELF for the year ended June 30, 2003 is as follows:

Total Assets	\$ 112,123,757
Total Liabilities	\$ 64,483,431
Retained Earnings	47,640,326
	<u>\$ 112,123,757</u>
Total Revenues	\$ 25,828,579
Total Expenses	11,022,709
Net Increase in Retained Earnings	<u>\$ 14,805,870</u>

**10. 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, 2003**

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Litigation

Various claims and litigation involving the District are currently outstanding. However, based on consultation with legal counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Commitments

The District has construction contracts and property acquisition commitments of approximately \$128,743,042 at June 30, 2003. Federal, state, local grant funds, and debt issued have been approved for such construction.

**11. 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. The required employer contribution rate for fiscal year 2002-03 was 2.77% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2003, 2002, and 2001 were \$1,499,097, \$0, and \$0, respectively, and equal 100% of the required contributions for each year.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2003

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.

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 2002-03 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, 2003, 2002, and 2001 were \$12,220,313, \$10,486,578, and \$10,236,207, 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.

**12. 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. A summary of the District's TRANS activity for the year ended June 30, 2003 is as follows:

	<u>Outstanding June 30, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding June 30, 2003</u>
2001 2.25% School Improvement Note	\$ 14,000,000		\$ 14,000,000	

**13. 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 \$6,628,594 (4.475% of salaries subject to STRS) and mandated costs for CalPERS benefits in the amount of \$39,601 (.0925% of salaries subject to CalPERS).

**REQUIRED SUPPLEMENTARY INFORMATION**

# STOCKTON UNIFIED SCHOOL DISTRICT

## BUDGETARY COMPARISON SCHEDULE GENERAL FUND YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final	GAAP Basis	Favorable (Unfavorable)
<b>REVENUES</b>				
State apportionment	\$ 130,776,371	\$ 129,544,704	\$ 126,509,802	\$ (3,034,902)
Local sources	44,930,675	47,260,502	48,861,712	1,601,210
Total revenue limit	175,707,046	176,805,206	175,371,514	(1,433,692)
Federal revenues	27,672,114	42,507,248	28,752,942	(13,754,306)
Other state revenues	67,422,585	71,605,401	68,160,977	(3,444,424)
Other local revenues	7,184,799	9,028,146	4,556,905	(4,471,241)
Total revenues	<u>277,986,544</u>	<u>299,946,001</u>	<u>276,842,338</u>	<u>(23,103,663)</u>
<b>EXPENDITURES</b>				
Certificated personnel salaries	138,426,167	145,113,415	145,568,099	(454,684)
Classified personnel salaries	44,121,321	46,101,980	46,261,707	(159,727)
Employee benefits	46,899,338	49,998,142	50,731,451	(733,309)
Books and supplies	23,134,061	41,248,599	19,622,925	21,625,674
Services and other operating expenditures	22,689,211	28,559,571	24,144,564	4,415,007
Capital outlay	338,717	3,127,301	2,808,816	318,485
Other outgo	35,000	35,000	595,396	(560,396)
Allocation of indirect costs	(606,534)	(655,923)	(804,673)	148,750
Debt service	631,683	760,483	551,491	208,992
Total expenditures	<u>275,668,964</u>	<u>314,288,568</u>	<u>289,479,776</u>	<u>24,808,792</u>
Excess (deficiency) of revenues over expendit	<u>2,317,580</u>	<u>(14,342,567)</u>	<u>(12,637,438)</u>	<u>1,705,129</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in			94,544	94,544
Other sources			2,500,610	2,500,610
Interfund transfers out	(1,220,893)	(2,720,893)	(3,564,145)	(843,252)
Total other financing sources (uses)	<u>(1,220,893)</u>	<u>(2,720,893)</u>	<u>(968,991)</u>	<u>1,751,902</u>
Net increase (decrease) in fund balance	1,096,687	(17,063,460)	(13,606,429)	3,457,031
Fund balance – beginning	<u>42,356,333</u>	<u>42,356,333</u>	<u>42,356,333</u>	
Fund balance – ending	<u>\$ 43,453,020</u>	<u>\$ 25,292,873</u>	<u>\$ 28,749,904</u>	<u>\$ 3,457,031</u>

## **SUPPLEMENTARY INFORMATION SECTION**



# STOCKTON UNIFIED SCHOOL DISTRICT

JUNE 30, 2003

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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 35 elementary, 4 intermediate, and 5 high schools, including Weber and Model Alternative High Schools. 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>
Louis Gonzales	President	2006
Clarence K. Chan	Vice-President	2004
Edward R. Garcia	Member	2004
Vicki Brand	Member	2004
Clem Lee	Member	2006
Glen A. Dolberg, Ph.D.	Member	2006
Katrina Rios	Member	2006

## 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, 2003**

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	2,900	2,898
Grades 1 through 3	9,422	9,362
Grades 4 through 6	8,992	8,918
Grades 7 and 8	5,272	5,294
Special Education	691	702
Opportunity Schools	33	34
Home and Hospital	9	11
Community Day School	33	31
Extended Year ADA	<u>47</u>	<u>47</u>
Elementary Totals	<u>27,399</u>	<u>27,297</u>
High School:		
Grades 9 through 12, Regular Classes	7,529	7,484
Special Education	401	440
Continuation Education	400	401
Opportunity Schools	77	86
Home and Hospital	19	29
Community Day School	62	57
Extended Year ADA	<u>35</u>	<u>36</u>
High School Totals	<u>8,523</u>	<u>8,533</u>
Classes for Adults:		
Concurrently Enrolled	76	71
Not Concurrently Enrolled	<u>1,347</u>	<u>1,337</u>
ADA Totals	<u>37,345</u>	<u>37,238</u>
		<u>Hours of Attendance</u>
Supplemental Instruction:		
Elementary		470,500
Secondary		292,144

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL TIME**  
**YEAR ENDED JUNE 30, 2003**

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2002-03 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	36,000	36,000	180	175	In Compliance
Grades 1 - 3	50,250	50,400	52,487	180	175	In Compliance
Grades 4 - 6	53,850	54,000	54,000	180	175	In Compliance
Grades 7 - 8	58,500	54,000	59,400	180	175	In Compliance
Grades 9 - 12	64,980	64,800	64,986	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, 2003**

**GENERAL FUND**

	June Adopted Budget 2004	2003	2002	2001
Revenues and other financial sources	\$ 286,168,298	\$ 279,437,492	\$ 278,476,535	\$ 270,474,896
Expenditures	287,722,585	289,479,776	273,869,674	252,497,652
Other uses and transfers out	<u>1,088,893</u>	<u>3,564,145</u>	<u>4,267,893</u>	<u>1,083,411</u>
Total outgo	288,811,478	293,043,921	278,137,567	253,581,063
Change in fund balance	<u>(2,643,180)</u>	<u>(13,606,429)</u>	<u>338,968</u>	<u>16,893,833</u>
Ending fund balance	\$ <u>26,106,725</u>	\$ <u>28,749,904</u>	\$ <u>42,356,333</u>	\$ <u>40,765,450</u>
Available reserves <sup>1</sup>	\$ <u>5,776,230</u>	\$ <u>5,860,878</u>	\$ <u>6,395,119</u>	\$ <u>8,887,219</u>
Designated for economic uncertainties	\$ <u>5,776,230</u>	\$ <u>5,860,878</u>	\$ <u>4,432,822</u>	\$ <u>5,071,261</u>
Undesignated fund balance	\$ <u>0</u>	\$ <u>0</u>	\$ <u>1,962,297</u>	\$ <u>3,815,958</u>
Available reserves as a percentage of total outgo	2%	2%	2.3%	3.5%
Total long-term debt	\$ 81,712,294	\$ 86,933,533	\$ 52,200,765	\$ 24,434,709
Average daily attendance at P-2 <sup>2</sup>	36,593	35,922	35,939	34,344

<sup>1</sup> Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the general fund and any special reserve fund (other than capital projects).

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

The general fund balance has decreased by \$12,015,546 over the past two years. The fiscal year 2003-04 budget projects a decrease of \$2,643,180 (9.2%). 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).

The District has incurred operating deficits in one of the past three years, and anticipates incurring an operating deficit during the 2003-2004 fiscal year. Total long-term debt has increased by \$62,498,824 over the past two years.

Average daily attendance has increased by 1,578 over the past two years. An increase of 671 ADA is anticipated during fiscal year 2003-04.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2003**

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	13797	\$ 16,277,414
Federal School Renovation Classroom Technology	84.352	14318	789,292
Title III – Limited English Proficiency	84.365	18004	55,208
Gear It Up	84.334	10088	301,199
Improving School Library	84.364	Unknown	79,438
Title VI – Innovative Education Program Strategies	84.298	13340	438,363
Title VI – Class Size Reduction	84.340	13073	223,628
Student Academic Partnerships	84.276	24166	194,457
Title II – Eisenhower	84.281	13207	146,387
Capital Expenses / Private Schools	84.216	03953	32,598
Indian Education	84.060	10011	300,062
Charter School Grants	84.282	03150	122,388
JROTC	84.None	Unknown	99,351
Improving Teacher Quality	84.367	14341	1,765,728
Technology Literacy Challenge Fund	84.318	13285	453,659
Vocational Education Title II - Part C – Sec. 131	84.048	03577	483,336
Vocational Education – Section 124	84.048	03573	3,065
Vocational Education Title II - Part C – Sec. 132	84.048	03577	76,692
Subtotal 84.048			<u>563,093</u>
Title IV – Safe and Drug-Free Schools	84.186	03453	525,597
Title IV – SDFS – Program Development	84.186	03452	338,366
Subtotal 84.186			<u>863,963</u>
Adult Education: Priority 1-3	84.002	13973	225
Adult Education: Priority 1-3, ESL	84.002	14302	144,900
Adult Education: Priority 4, Family Literacy	84.002	13977	15,525
Adult Education: Priority 5, Adult Secondary Education	84.002	13978	17,627
Adult Education: Priority 1-3, ESL Citizenship	84.002	13974	450
Adult Education: English Literacy and Citizenship	84.002	14109	214,494
Subtotal 84.002			<u>393,221</u>
IDEA Part B (Special Education Cluster):			
Local Assistance	84.027	13379	4,260,634
Preschool Local Entitlement	84.027	13682	204,217
Federal Preschool	84.173	13430	221,846
Infant Discretionary	84.027	13612	40,211
Local Staff Development	84.027	13613	15,964
Pre-School Staff Development	84.173	13431	1,184
Low Incidence	84.027	13459	9,774
Early Intervention	84.181	13761	66,096
Interpreter Certification	84.027	01802	1,200
Workability I	84.027	13705	226,517
Subtotal Special Education Cluster			<u>5,047,643</u>
Total U.S. Department of Education			<u>28,147,092</u>

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2003**

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U.S. Department of Health and Human Services:			
Passed Through California Department of Health			
Services:			
Medi-Cal Option Billing	93.778	10013	972,165
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care and Adult	10.558	03529	12,194
National School Lunch	10.555	Unknown	<u>8,372,158</u>
Total U.S. Department of Agriculture			<u>8,384,352</u>
Total Expenditures of Federal Awards			<u>\$ 37,503,609</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 2002-03 was \$473,112.

STOCKTON UNIFIED SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2003

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	<u>General Fund</u>
June 30, 2003 Annual Financial and Budget Report Fund Balance	\$ 20,528,819
Audit adjustments:	
Increase in Accounts Receivable	403,149
Decrease in Deferred Revenue	<u>7,817,936</u>
Net Adjustments	<u>8,221,085</u>
June 30, 2003 Audited Financial Statement Fund Balance	\$ <u>28,749,904</u>
	<u>Child Development Fund</u>
June 30, 2003 Annual Financial and Budget Report Fund Balance	\$ 140,971
Audit adjustments:	
Decrease in Deferred Revenue	<u>16,947</u>
June 30, 2003 Audited Financial Statement Fund Balance	\$ <u>157,918</u>
	<u>Self-Insurance Fund</u>
June 30, 2003 Annual Financial and Budget Report Fund Balance	\$ 5,036,995
Audit adjustments:	
Increase in Claims Liabilities	<u>(4,582,092)</u>
June 30, 2003 Audited Financial Statement Fund Balance	\$ <u>454,903</u>

**AUDITOR'S COMMENTS**

All other fund balances agreed to the unaudited actuals.

See the accompanying notes to supplementary information.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2003**

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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 as reported on the unaudited actuals to the audited fund 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, 2003.



**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, 2003, and have issued our report thereon dated October 27, 2003. 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 03-2, 03-3, and 03-4.

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 03-1.

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, Inc.*

**GILBERT ASSOCIATES, INC.**

**October 27, 2003**



**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, 2003. The District's major federal programs are identified in the Summary of Auditor's Results included in 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, 2003. 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 03-2, 03-3 and 03-4.

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 27, 2003**



**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, 2003, and have issued our report thereon dated October 27, 2003. 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:

Description	Procedures in Controller's Audit Guide	Procedures Performed
<b>Attendance Accounting:</b>		
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
<b>Incentives for Longer Instructional Day:</b>		
School Districts	4	Yes
County Offices of Education	4	Not Applicable
Gann Limit Calculation	1	Yes
Early Retirement Incentive Program	5	Not Applicable
Community Day Schools	8	No (See Next Page)

**Board of Education  
Stockton Unified School District  
Page 2**

Description	Procedures in Controller's Audit Guide	Procedures Performed
Class Size Reduction Program:		
Option one classes	10	Yes
Option two classes	9	Not Applicable
Option one and two classes	14	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Yes
State Instructional Materials		
Instructional Materials Funding Realignment Program	9	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
Ratios of Administrative Employees to Teachers	3	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. 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.

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 27, 2003**

## **FINDINGS AND RECOMMENDATIONS SECTION**



**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2003**

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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?        Yes   X   None Reported

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

Any audit findings disclosed that are required to be reported in accordance with 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>84.367</u>	<u>Improving Teacher Quality</u>
<u>84.027, 84.173, 84.181</u>	<u>Special Education</u>
<u>93.778</u>	<u>Medi-Cal Billing Option</u>
<u>10.555</u>	<u>National School Lunch</u>
<u>84.186</u>	<u>Safe and Drug Free Schools</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,125,108

Auditee qualified as low-risk auditee?   X   Yes        No

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2003**

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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?

       Yes        X   None Reported

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

Unqualified

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2003

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SECTION II – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROLS – REPORTABLE CONDITIONS

03-1. ASSOCIATED STUDENT BODY – CDDC #30000

1. **Finding:** We found at two school sites 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 clerks 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 misappropriation 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 supporting documentation to ensure that all funds received are accounted for.

**District Response:**

Associated Student Body clerks receive periodic training regarding the proper procedures over cash received from student organizations. The two schools identified will be required to submit an action plan to correct the findings. Additionally, business office staff will review the action plan for completeness and the district's internal auditors will test the plan to ensure full implementation.

2. **Finding:** All cash receipts are received by one person in the office who also has the responsibilities of recording receipts in the general ledger and making bank deposits. This lack of segregation of duties means there is no independent way to verify that the amounts collected equal the amounts deposited. This significantly lessens the District's controls over cash receipts and ability to detect errors or misappropriation of the receipts in a timely manner.

**Recommendation:** We recommend segregating a portion of this process to create an independent verification of information on total cash receipts.

**District Response:**

The business office staff will work with schools to develop a process which segregates the counting of cash, recording of receipts, and preparation of bank deposits. The district's internal auditors will test the revised procedures to ensure its implementation and that proper segregation of duties has been accomplished.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2003**

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**SECTION III - FEDERAL COMPLIANCE**

**03-2. SAFE AND DRUG FREE SCHOOLS – CDDC #50000**

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

**Award Year:** 2002-2003

**Catalog Number:** 84.186

**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 the Safe and Drug Free Schools program.

**Cause of Condition:**

Safe and Drug Free Schools 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 Safe and Drug Free Schools program, \$377,533.

**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:**

Time certifications are maintained for Federal programs. However, staff was unaware of the Safe and Drug Free Schools compliance requirements regarding time certifications. A corrective action plan will be develop to ensure that staff adheres to the time certification requirements.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2003**

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03-3. SPECIAL EDUCATION – CDDC #50000

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

**Award Year:** 2002-2003

**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 the Special Education program.

**Cause of Condition:**

The Special Education staff were not aware that all employees were required to maintain time certifications.

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

Questioned costs consist of the entire amount of salaries and benefits charged to the Special Education program, \$4,781,752.

**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:**

Time certifications are maintained for special education programs. However, a corrective action plan will be develop to ensure that all special education staff adhere to the time certification requirements.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2003**

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03-4. MEDI-CAL BILLING OPTION – CDDC #50000

**Federal Agency:** U.S. Department of Health and Human Services  
**Award Year:** 2002-2003  
**Catalog Number:** 93.778  
**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.

Per OMB Circular A-87 (attachment B, item 11[h][4]), where employees work on multiple activities, cost objectives, or federal programs, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: a. They must reflect an after-the-fact distribution of the actual activity of each employee, b. They must account for the total activity for which each employee is compensated, c. They must be prepared at least monthly and must coincide with one or more pay periods, and, d. They must be signed by the employee.

**Finding:**

We found that no time certifications were maintained to support salaries and benefits charged to the Medi-Call Billing Option program.

**Cause of Condition:**

The Medi-Cal Billing Options program personnel were not aware that such certifications needed to be prepared.

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

Questioned costs consist of the entire amount of salaries and benefits charged to the Medi-Cal Billing Option program, \$273,467.

**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.

**STOCKTON UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2003**

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**District Response:**

Staff was unaware of Medi-Cal Billing compliance requirements regarding time certifications. A corrective action plan will be develop to ensure that staff adheres to the time certification requirements.

**STOCKTON UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**YEAR ENDED JUNE 30, 2003**

<b>Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
<b>INTERNAL CONTROLS – REPORTABLE CONDITIONS</b>		
02-1 ASSOCIATED STUDENT BODY – CDDC #30000		
A. 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.	Not Fully Implemented.	See CY comment related to ASB
B. The principal should ensure that a student store inventory count is taken quarterly as required by the District's <i>Associated Student Body Activities Handbook</i> to enable the ASB clerk to reconcile cash receipts to sales and to reduce the risk of theft or loss of inventory.	Implemented	
<b>STATE COMPLIANCE</b>		
02-2 KINDERGARTEN CONTINUATION – CDDC #10000		
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.	Implemented	



STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2003

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Recommendation	Current Status	District Explanation If Not Implemented
<b>FEDERAL COMPLIANCE</b>		
02-3 SPECIAL EDUCATION – GRANTS TO STATES (IDEA) PART B – CDDC #50000		
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.	Not Fully Implemented	See CY comment related to Special Education Time Certifications
02-4 CLASS SIZE REDUCTION – CDDC #50000		
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.	Implemented	