

STOCKTON UNIFIED SCHOOL DISTRICT

**COUNTY OF SAN JOAQUIN
STOCKTON, CALIFORNIA**

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

YEAR ENDED JUNE 30, 2004



Gilbert Associates, Inc.
CPAs and Advisors

STOCKTON UNIFIED SCHOOL DISTRICT

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STOCKTON, CALIFORNIA**

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YEAR ENDED JUNE 30, 2004

STOCKTON UNIFIED SCHOOL DISTRICT

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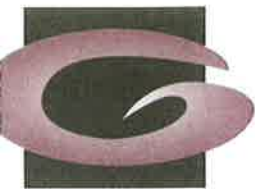
STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2004

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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, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Management's Discussion and Analysis on pages 3 through 16 and the budgetary comparison information on page 48 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.

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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

November 5, 2004



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2004, 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 2004 fiscal year was \$362.8 million. Expenditures totaled \$325.9 million. Net assets increased by \$36.9 million. This represents a 26.5% increase over the prior year.
- Capital assets, net of depreciation, increased by \$43.5 million. Projects completed during the year included the construction of the George W. Bush Elementary School, site modernization at Hazelton, McKinley, and Taylor Elementary Schools, and the completion of a number of deferred maintenance and other projects at school sites throughout the district.
- Construction continued for the Cesar Chavez High School. Construction costs at June 30, 2004 totaled \$32.8 million. The school is scheduled to begin operation at the start of the 2005-2006 school year.
- Construction and modernization work continued at a number of other district school sites. Total costs expended on project work in progress totaled \$61.3 million at the end of the fiscal year. Included in the total is \$32.8 million for the Cesar Chavez High School, \$11.7 million for the modernization of A. A. Stagg High School, \$4.3 million for the construction/relocation of the Kohl Elementary School, and \$12.5 million for a number of construction, modernization and deferred maintenance projects.
- Long-term debt increased by \$49.0 million due, in part, to the issuance of \$29.2 million in General Obligation Bonds, \$12.0 million in Certificates of Participation (COPs), and \$5.0 million for a Qualified Zone Academy Bond (QZAB). The proceeds from the sale of these financial instruments will be used for construction of new schools and the modernization or renovation of existing schools.

Overview of the Financial Statements

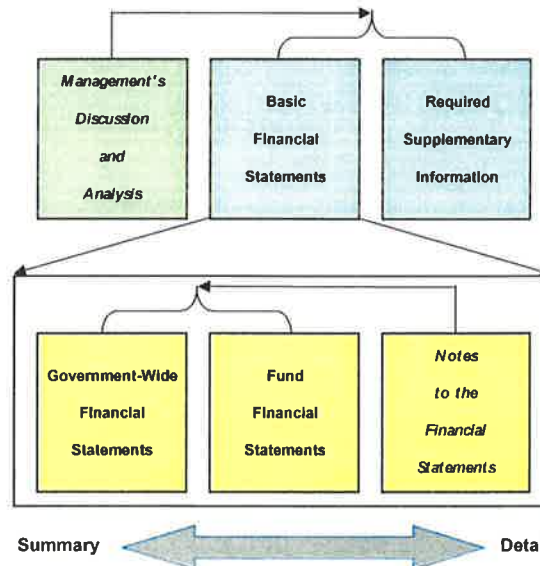
This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

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

Government-wide Statements

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

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

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

Fund Financial Statements

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

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

There are three types of funds that the district utilizes:

- *Governmental funds* – Most of the district's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in the determination of whether there are more or fewer financial resources that can be spent in the near future to finance the district's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that 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, 2004 and 2003, along with the year-over-year change, is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2004	2003	
Current and other assets:			
Cash	\$ 115,202,546	\$ 80,192,174	\$ 35,010,372
Receivables	23,968,888	20,893,130	3,075,758
Inventories	1,514,094	1,548,860	(34,766)
Other current assets	4,311,898	862,941	3,448,957
Capital assets, net of depreciation	195,050,812	151,520,839	43,529,973
Total assets	340,048,238	255,017,944	85,030,294
Long-term debt outstanding	135,969,124	86,933,533	49,035,591
Other liabilities	27,659,258	28,607,014	(947,756)
Total liabilities	163,628,382	115,540,547	48,087,835
Net assets:			
Invested in capital assets, net of related debt	118,162,782	93,850,071	24,312,711
Restricted	54,955,578	21,488,991	33,466,587
Unrestricted	3,301,496	24,138,335	(20,836,839)
Total Net Assets	\$ 176,419,856	\$ 139,477,397	\$ 36,942,459

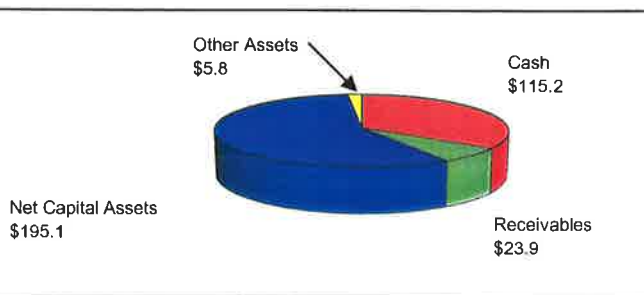
Total assets increased by a net total of \$85.0 million during the 2004 fiscal year. Cash accounts increased by \$35.0 million, while Capital assets, net of depreciation, increased by a total of \$43.5 million from the prior year. The increases to Capital assets will be more fully discussed later in this report.

Total liabilities increased by a net \$48.1 million. Long-term debt increased by \$49.0 million, in part from the issuance of General Obligation bonds, Certificates of Participation, and a Qualified Zone Academy bond. Other liabilities, including accounts payable and deferred revenue decreased by \$.9 million. Long-term debt will also be discussed later in this report.

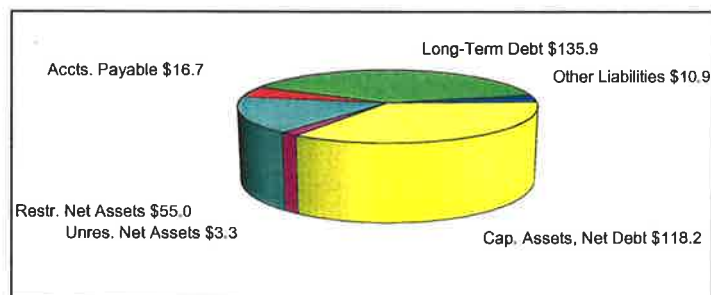
The difference between the \$85.0 million increase to Total assets and the \$48.1 million increase to Total liabilities results in a net \$36.9 million increase to Total Net Assets, a 26.5% change from the balance at June 30, 2003.

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)

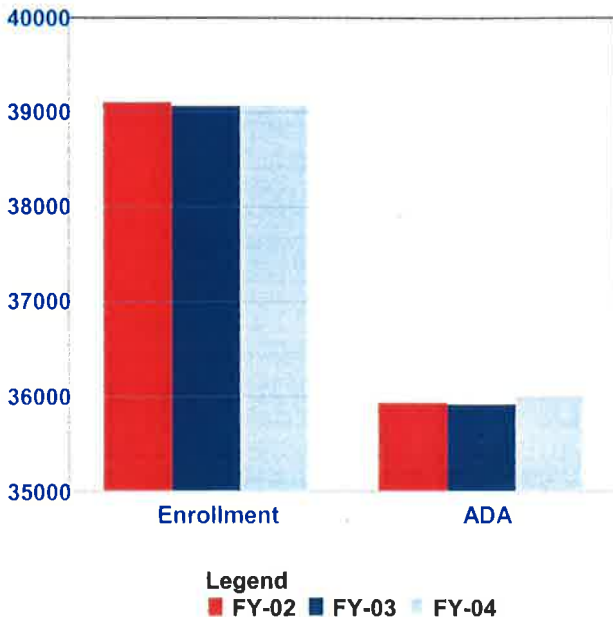


Changes in Net Assets

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

	Government-Wide Activities		Year Over
	2004	2003	Year Change
Revenues – Program:			
Charges for Services	\$ 3,694,630	\$ 4,655,741	\$ (961,111)
Operating Grants and Contributions	101,936,967	100,182,386	1,754,581
Capital Grants and Contributions	49,497,993	14,582,153	34,915,840
Revenues – General:			
Unrestricted Federal and State Aid	138,702,645	139,490,611	(787,966)
Taxes Levied for General Purposes	54,829,326	48,861,713	5,967,613
Taxes Levied for Debt Service	2,955,617	1,560,049	1,395,568
Interest and Investment Earnings	1,191,160	1,472,592	(281,432)
Other General Revenues	10,035,905	3,757,996	6,277,909
Total Revenues	362,844,243	314,563,241	48,281,002
Expenses:			
Instruction	200,434,357	192,978,559	7,455,798
Pupil and Instructional Services	76,838,183	74,158,118	2,680,065
General Administration	13,343,771	15,328,167	(1,984,396)
Plant Services	29,926,931	29,176,527	750,404
Other Expenses	5,358,543	3,596,149	1,762,394
Total Expenses	325,901,784	315,237,520	10,664,264
Increase (Decrease) in Net Assets	36,942,459	(674,279)	37,616,738
Net Assets, Beginning of the Year	139,477,397	140,151,676	(674,279)
Net Assets, End of the Year	\$ 176,419,856	\$ 139,477,397	\$ 36,942,459

For the 2004 fiscal year, total district revenues were \$362.8 million. Total district expenses were \$325.9 million. The difference, \$36.9 million, is an increase to net assets, bringing total net assets at June 30, 2004 to \$176.4 million.



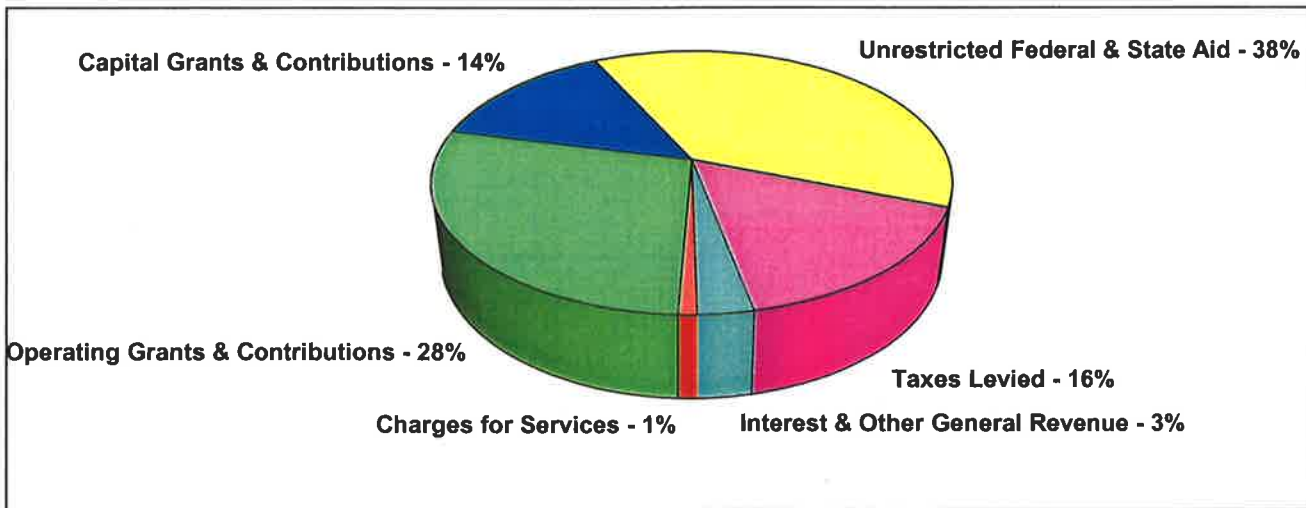
A main source of revenue for the district is the State Aid portion of the Revenue Limit, included in the Unrestricted Federal and State Aid total. The Revenue Limit is based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days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

District enrollment has remained relatively stable over the last few years. The graph presented to the left shows the second month enrollment and Period 2 (P-2) ADA for fiscal years 2002, 2003, and 2004. Total second month enrollment in Grades K – 12 for the 2004 fiscal year was 39,085 students, excluding charter school enrollment. While enrollment at the elementary grades has seen a slight decline, this has been offset by an increase in enrollment at the secondary grades, primarily grades 9 – 12.

P-2 ADA has also remained fairly stable. For the 2004 fiscal year, the P-2 ADA totaled 35,998, an increase of 76 ADA over the prior year.

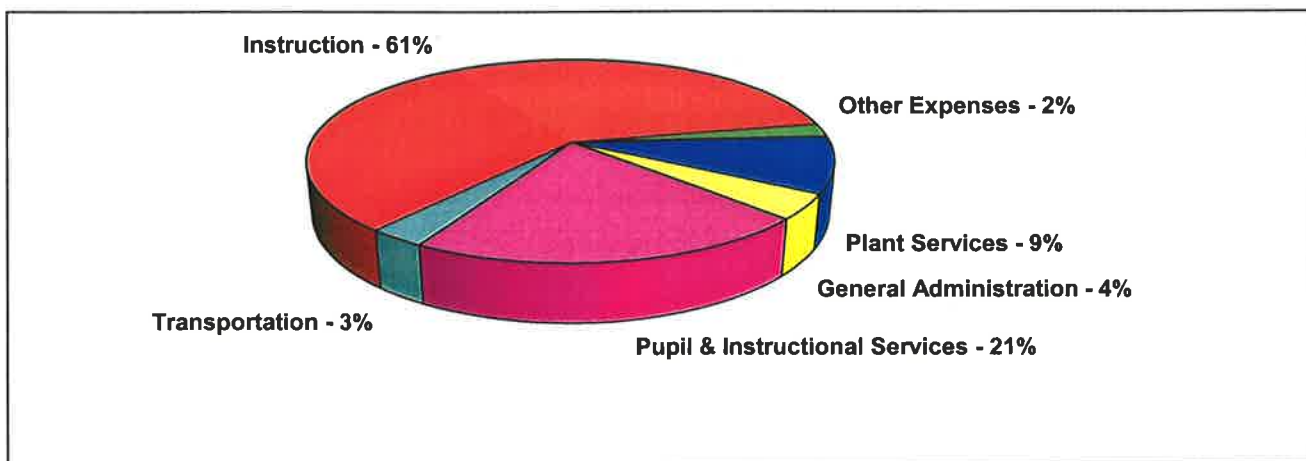
The following graph displays the Government-wide revenue sources by percentage.

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	
	2004	2003	2004	2003
Instruction, Instruction-related Services and Pupil Services	\$ 277,272,540	\$ 267,136,677	\$ 129,808,655	\$ 152,650,769
General Administrative and Plant Services	42,689,398	44,048,000	38,100,550	39,307,846
Ancillary Services	522,919	456,694	471,342	408,462
Totals	\$ 320,484,857	\$ 311,641,371	\$ 168,380,547	\$ 192,367,077

This table displays by function the total and net cost of services provided for the 2004 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, 2004, the district had fourteen governmental funds reporting a combined fund balance of \$108.7 million, an increase of \$42.6 million over the prior year. Of these funds, nine had revenues that exceeded expenditures in 2004, 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
	2004	2003	
General Fund	\$ 17,573,211	\$ 28,749,905	\$ (11,176,694)
Charter Schools Special Revenue Fund	39,411	18,066	21,345
Adult Education Fund	3,195,881	2,988,023	207,858
Child Development Fund	170,882	157,918	12,964
Cafeteria Special Revenue Fund	2,452,998	6,189,190	(3,736,192)
Deferred Maintenance Fund	2,252	1,311,024	(1,308,772)
Building Fund	41,533,412	15,418,419	26,114,993
Capital Facilities Fund	5,816,300	3,052,246	2,764,054
County School Facilities Fund	195,758	4,464,976	(4,269,218)
Special Reserve for Capital Outlay Projects	28,058,886	1,277,246	26,781,640
Capital Proj. Fund for Blended Component Units	1,994,718	443,192	1,551,526
Bond Interest and Redemption Fund	1,933,854	730,504	1,203,350
Tax Override Fund	20,528	22,699	(2,171)
Debt Service Fund	5,001,086	1,277,101	3,723,985
Totals	\$ 107,989,179	\$ 66,100,509	\$ 41,888,670

General Fund Budgetary Highlights

The district's 2004 General Fund operating budget was adopted by the Governing Board in June of 2003. As adopted, projected revenues totaled \$286.2 million. Budgeted expenditures totaled \$288.8 million, with expenditures projected to exceed revenues by approximately \$2.6 million.

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

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

The tables following display the actual General Fund revenue and expenditures by major object categories with a comparison to the revised budget totals reflected in the district's Second Interim Financial Report.

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Revenue:			
Revenue Limit	\$ 174,017,171	\$ 172,510,310	\$ 1,506,861
Federal Revenue	38,234,639	48,227,552	(9,992,913)
Other State Revenue	63,674,614	72,102,220	(8,427,606)
Other Local Revenue	4,972,226	8,348,888	(3,376,662)
Transfers In/Other Sources	8,200,000	3,200,000	5,000,000
Total Revenue	\$ 289,098,650	\$ 304,388,970	\$ (15,290,320)

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Expenditures:			
Certificated Salaries	\$ 150,264,597	\$ 146,909,596	\$ 3,355,001
Classified Salaries	46,585,655	46,329,539	256,116
Employee Benefits	55,977,475	56,096,510	(119,035)
Books and Supplies	16,525,279	39,832,833	(23,307,554)
Services, Other Operating Expenses	22,374,353	26,124,468	(3,750,115)
Capital Outlay	531,847	694,122	(162,275)
Other Outgo/ Direct Support/Indirect Costs	1,248,558	1,100,631	147,927
Transfers Out/Other Uses	6,767,581	968,000	5,799,581
Total Expenditures	\$ 300,275,344	\$ 318,055,699	\$ (17,780,355)

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 \$1.5 million more than budget.
- Federal revenue was \$10.0 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 \$8.4 million less than budget due, in part, to budget cut revenue deferrals.
- Other local revenue was \$3.4 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 \$3.4 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 \$23.3 million less than the amount budgeted. The district has historically used this category to account for any funds reserved but not fully budgeted to other expenditure categories. Reserved, but unexpended, balances have been carried forward to the following year.
- The services and other operating expenditures category was \$3.7 million lower than budget. Amounts budgeted for contracted services on projects not completed at year-end have been carried forward to the following year.

The table below displays actual General Fund revenue by major category for fiscal year 2004, along with the increase or decrease to fiscal year 2003 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

	General Fund			
	FY-2004 Actual	Percent Of Total	Increase (Decrease) from FY-2003	Percent Increase or (Decrease)
Revenues:				
Revenue Limit	\$ 174,017,171	61.95	\$ (1,354,343)	(0.77)
Federal Revenue	38,234,639	13.61	9,481,697	32.98
Other State Revenue	63,674,614	22.67	(4,486,363)	(6.58)
Other Local Revenue	4,972,226	1.77	415,321	9.11
Total Revenues	\$ 280,898,650	100.00	\$ 4,056,312	1.47

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

	General Fund			
	FY-2004 Actual	Percent Of Total	Increase (Decrease) from FY-2003	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	\$ 150,264,597	51.33	\$ 4,696,498	3.23
Classified Salaries	46,585,655	15.91	323,948	0.70
Employee Benefits	55,977,475	19.12	5,246,024	10.34
Books and Supplies	16,525,279	5.65	(3,097,646)	(15.79)
Services, Other Operating Expenses	22,374,353	7.39	(1,770,211)	(10.42)
Capital Outlay	531,847	0.18	(2,276,969)	(81.07)
Other Outgo	2,002,208	0.68	855,321	74.58
Direct Support/Indirect Costs	(753,650)	(0.26)	51,023	6.34
Total Expenditures	\$ 292,761,400	100.00	\$ 3,281,624	1.13

292,507,764

The district's financial condition was severely tested during 2004 fiscal year and will continue to be in future operating years as a result of the uncertain state economic condition. 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	
	2004	2003
Land	\$ 11,472,205	\$ 11,472,205
Improvement of Sites	1,713,292	1,137,037
Buildings	115,964,373	98,209,185
Equipment	4,561,637	5,050,610
Construction in Progress	61,339,305	35,651,802
Totals	\$ 195,050,812	\$ 151,520,839

Capital assets in the table above are reflected at June 30, 2004 and 2003, 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 \$43.5 million during the year. Major capital asset additions completed or purchased during the year include the following:

✓ Construction	George W. Bush Elementary School	\$13.4 million
✓ Modernization	Hazleton Elementary School	\$ 3.7 million
✓ Modernization	McKinley Elementary School	\$ 2.5 million
✓ Modernization	Taylor Elementary School	\$ 2.4 million

A total of \$61.3 million has been expended on projects still in the construction phase. This includes construction work on Cesar Chavez High School, Maxine Hong-Kingston Middle School, and Wilhelmina Henry Elementary School, the relocation of Kohl Elementary School, the modernization of A. A. Stagg High School and Fremont, Hamilton, and Webster Middle Schools, and construction and modernization work at other school sites within the district.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2004	2003
General Obligation Bonds	\$ 80,766,666	\$ 51,061,698
Certificates of Participation	26,544,981	15,015,000
Qualified Zone Academic Bonds Payable	6,635,000	1,635,000
Lighting Retrofit Payable	2,512,972	2,858,223
District-Wide Telephone System (VOIP)	1,788,200	2,266,571
State School Building Loan Payable	9,543	10,897
Compensated Absences	3,238,238	2,880,370
Other Postretirement Benefits	4,478,993	4,804,465
Claims Liability	9,830,451	6,159,511
Capital Leases	164,080	241,798
Totals	\$ 135,969,124	\$ 86,933,533

Outstanding debt increased by a net amount of \$49.0 million during the fiscal year. The increase primarily results from the issuance of \$29.2 million in General Obligation bonds, the third and last 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 \$196.2 million, based on the total assessed valuation of taxable property within

district boundaries of \$7.8 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, the district issued \$12.0 million in Certificates of Participation. A credit rating of "AAA" was issued by Standard and Poor regarding this obligation. Further, a \$5.0 million Qualified Zone Academy Bond was issued by the district during the fiscal year. The proceeds from these two financial instruments will also be used for the construction of new schools or the modernization or renovation of existing schools structures.

No specific debt instrument was retired during the fiscal year. All 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

The last few years have been financially devastating to K-12 education statewide. Stockton Unified School District has not been exempt from the effects of the greatest state budget deficit in decades. Although the state economic outlook is slightly improved, funding of public education and other high priority state programs continue to be at risk.

Stockton Unified School District has made necessary budget reductions to meet the challenges of these economic times. Although the FY-05 funding estimates bring some relief to the general fund, the dollars are far short of providing resources necessary to meet our long-term goals. There is little, if any, flexibility in the FY-05 Adopted Budget. At the time of adoption, it was estimated that the budget had adequate reserves to meet the district's financial obligations for the budget year and two years beyond.

Revenue Changes

Revenue Limit Resources

The revenue limit is the single largest revenue source, representing 57% of total revenues received. The budget projects additional funding for 400 ADA (1% growth factor), a Cost of Living Adjustment (COLA) of 2.41% coupled with a 2.1% mandated deficit factor.

Federal Resources

Federal revenues represent 15% of total revenues and include programs such as No Child Left Behind and Special Education entitlements (IDEA). The budget includes a small increase in federal grants for FY-05. This figure will be adjusted for prior year carry over funding and final entitlements at the First Interim Report in December 2004.

State Resources

For the most part, state resources, representing 23% of total revenue, is unchanged from the prior year. The majority of all state revenue reductions were adjusted at the Second Interim Financial Report for FY-04. Should the state financial outlook require additional budget cuts for K-12 education, we anticipate that those cuts would occur in this revenue category.

Local Resources

Local resources represent 1% of total revenue. This category includes donations, interest earnings, and fee receipts. The adopted budget includes estimated increases for interest earnings and donations. The majority of the projected increase is in the estimate of additional deferred revenue from donated funds from the prior year.

Expenditure Changes

Budget spending is organized in tiers representing the priority for the allocation of funds. The Adopted General Fund Budget was developed with the majority of changes falling in the Tier 1 category.

An explanation of the three tiers used by the district to prioritize budget additions follows:

Tier 1 – Spending increases that are due to necessity, reality, or mandate. Included in this category are revenue changes known at the time the budget is developed, mandatory and contractual expenditure changes, and changes necessary to adequately fund ongoing district programs.

Tier 2 – Spending increases that represent improvements in current operational programs and are comprehensive in nature. They may have a broader impact on district operations and a greater degree of import to policy makers.

Tier 3 – Spending changes that may affect single segments of the district's operations. These changes may be gradual, experimental, or temporary in nature.

Tier 1

Base Budget Changes:

- The application of staffing formulas for teaching staff and other staff necessary to accommodate new students and new schools. Administrative staffing has been allocated for the opening of Chavez High School in FY-06.
- Increases in wages for all employees that are moving to a higher level on the salary schedule (Step and Column movements).
- Increases in the benefit allowance for employees as bargained in the final agreement. This change allows for a one year increase in the allowance equal to 50% of the increased cost of the lowest medical plan. Estimated increases in the district paid allowance for early retirees have been included in the adopted budget.
- An increase in the district Workers Compensation premium has been included to address claim needs for FY-05. The claims data has been analyzed and adjusted to the recent reforms.
- Any prior year carry over funding for sites and departments and any one time budgets have been removed from the adopted budget. Re-appropriation of such funds will be made in FY-05 from the fund balance.

Tier 2

The following budget adjustments have been included in the adopted budget.

Custodial Services

The Support Services staff has evaluated the possibilities for restructuring the delivery of custodial services to school sites. One option that will produce significant savings is custodial cleaning teams. Custodial cleaning teams have been implemented in other school districts and have reaped thousands of dollars in savings. This concept must be very well planned due to the complexities of school use. The adopted budget includes savings in the amount of \$366,000 for budget year 2005. Ongoing savings after initial set up are estimated at \$500,000.

Restructure – Duplicating/Mail Room Services

No cost savings or cost additions result from this restructure, but the implementation results in increased efficiency in this department. The restructure changes the classification of the existing supervisor to a management position and adds two new positions. The addition of one operator and one delivery driver/mail clerk will reduce the amount of overtime and substitute time currently spent, with an increase in the productivity of the operation. The re-classification results in two additional staffing upgrades to maintain consistency in the salary schedule. Any additional costs will be absorbed from existing budgets within the department.

Restructure – Accounting Department

The FY-05 budget incorporates a restructuring of the Business Services Accounting Department. The net cost savings is \$55,322. The position changes and related cost addition or savings is detailed below:

Position	Add/Eliminate	Cost/Savings
Payroll Technicians	-2.00	\$ (71,431)
Payroll Analyst	1.00	45,742
Accounting Technician	-1.00	(43,587)
Account Clerk II (vacant)	-1.00	(36,717)
Asst. Budget Analyst	1.00	50,671
Totals	-2.00	\$ (55,322)

Supervisory assignments have been changed to improve the flow and increase efficiencies. These changes were made with no additional cost to the district.

Tier 3

One Tier 3 budget adjustment has been implemented in the Budget. This adjustment is in the amount of \$143,000 and eliminates two positions in the Educational Services Division.

Position	Add/Eliminate	Cost/Savings
Program Specialist	-1.00	\$ (89,701)
Video Technician	-1.00	(53,299)
Totals	-2.00	\$ (143,000)

Fund Balances and Reserves

The fund balance is essentially the reserves over and above budgeted revenues and expenses that are set aside for designated or statutory purposes. Two components that are always present in the fund balance are the inventory (warehouse) and revolving cash.

A third component that must always appear in the fund balance is the statutory requirement for a 2% reserve for economic uncertainty. In FY-04 the state gave school districts some flexibility in the requirement to maintain this balance; however, it must be restored fully in FY-05. Stockton Unified did not need to take advantage of this flexibility because the fund balance was sufficient in FY-04 to maintain the full 2% requirement. Other components of the fund balance include designations for program carryover funds from the prior year and any designations for specific projects.

Changes in the fund balance are usually the result of the following:

- Unsettled or unpaid salary agreements (retro funds reserved)
- Changes in program carry over funds from the prior year
- Allocated funds for the completion of specific capital projects
- Structural deficits that reduce the fund balance reserves

Stockton Unified School District continues to maintain an adequate fund balance for purposes of meeting the necessary requirements, both statutory and designated. However, the fund balance does not provide sufficient flexibility to withstand a large reduction in revenues that may come from the state on an ongoing basis. If revenues are reduced from these estimates, the district may face expenditure reductions for FY-05. An expenditure from fund balance resources must be for one-time expenses only. Fund balance resources are not ongoing from year to year.

Positive Elements of the FY-05 Budget

In spite of continuing troubled economic times in K-12 education, there are a number of positive occurrences that have assisted Stockton Unified in maintaining a strong fiscal position without devastating reductions to the educational program. In spite of all the negative press given to the state's economic status, the following positive elements should be noted:

- Modest unrestricted funding boosts from the state budget
- Maximum district contributions to health and welfare benefits
- The passage of Proposition 57 and 58 in the March 2004 election
- The passage of Proposition 55 – the state school bond in the March 2004 election
- Deficit reductions for Special Education
- Adequate fund balance reserves

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, 2004

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 115,202,546
Receivables	23,968,888
Inventories	1,514,094
Prepaid expenditures	4,311,898
Capital assets:	
Land	11,472,205
Improvements of Sites	4,142,739
Buildings	195,360,104
Machinery and equipment	10,065,730
Construction in progress	61,339,305
Less: accumulated depreciation	<u>(87,329,271)</u>
Total assets	<u>340,048,238</u>
LIABILITIES	
Accounts payable	16,713,682
Deferred revenues	10,945,576
Long-term liabilities, due within one year:	
Debt	2,711,318
Compensated absences	323,824
Postemployment benefits	895,799
Claims and judgments	3,244,049
Long term liabilities, due in more than one year	
Debt	115,710,124
Compensated absences	2,914,414
Postemployment benefits	3,583,194
Claims and judgments	<u>6,586,402</u>
Total liabilities	<u>163,628,382</u>
NET ASSETS	
Invested in capital assets, net of related debt	118,162,782
Restricted for:	
Capital projects	36,065,663
Debt Service	6,955,468
Educational programs	9,479,197
Other purposes (expendable)	2,455,250
Unrestricted	3,301,496
Total net assets	<u>\$ 176,419,856</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Functions	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction	\$ 200,434,356	\$ 1,457,291	\$ 64,028,006	\$ 49,497,993	\$ (85,451,066)
Instruction-related services:					
Supervision of instruction	16,837,560	8,242	8,980,527		(7,848,791)
Instructional library, media and technology	1,874,667		298,086		(1,576,581)
School site administration	21,010,581	139,765	2,320,020		(18,550,796)
Pupil services:					
Pupil transportation	8,663,714	2,956	5,935,717		(2,725,041)
Food services	11,223,727	1,485,866	6,828,880		(2,908,981)
Other pupil services	17,227,934	9,132	6,471,404		(10,747,398)
Ancillary services	522,919		51,577		(471,342)
Enterprise activities	58,385		37		(58,348)
General administration:					
Data processing services	2,943,044				(2,943,044)
Other general administration	9,819,423	139,404	2,882,692		(6,797,327)
Plant services	29,926,931	15,584	1,551,168		(28,360,179)
Depreciation (unallocated)	398,250				(398,250)
Interest on debt	3,829,533				(3,829,533)
Other Outgo	1,130,760	436,390	2,588,853		1,894,483
Totals	\$ 325,901,784	\$ 3,694,630	\$ 101,936,967	\$ 49,497,993	(170,772,194)
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					54,829,326
Taxes levied for debt service					2,955,617
Taxes levied for other specific purposes					1,932,260
Federal and state aid not restricted to specific purposes					138,702,645
Interest and investment earnings					1,191,160
Interagency revenues					655,668
Miscellaneous revenue					7,447,977
Total general revenues					207,714,653
Increase in net assets					36,942,459
Net assets - beginning					139,477,397
Net assets - ending					\$ 176,419,856

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

ASSETS	Building Fund		County School Facilities		Special Reserve Fund for Capital Outlay		Other Governmental Funds		Total Governmental Funds
	General Fund								
Cash and equivalents	\$ 10,655,584	\$ 41,415,292	\$ 186,874	\$ 34,744,813	\$ 20,613,166	\$ 107,615,729			
Investments									
Receivables	20,579,969	118,120	8,884	83,281	3,122,359	23,912,613			
Due from other funds	1,511,701				531,676	2,043,377			
Inventories	1,064,005				450,089	1,514,094			
Prepaid expenditures	2,485,539				175,284	2,660,823			
Total assets	\$ 36,296,798	\$ 41,533,412	\$ 195,758	\$ 34,828,094	\$ 24,892,574	\$ 137,746,636			

LIABILITIES AND FUND BALANCES

Liabilities:									
Accounts payable	\$ 5,592,179			\$ 6,769,208	\$ 1,658,642	\$ 14,020,029			
Due to other funds	1,268,152				1,519,516	2,787,668			
Deferred revenue	11,863,256				1,086,504	12,949,760			
Total liabilities	18,723,587			6,769,208	4,264,662	29,757,457			

Fund balances:									
Reserved for:									
Revolving cash	65,281					65,281			
Inventories	1,064,005				450,089	1,514,094			
Prepaid expenditures	2,485,539				175,284	2,660,823			
Debt service					6,955,468	6,955,468			
Legally restricted programs	6,073,022					6,073,022			
Unreserved, reported in:									
General fund	7,885,364					7,885,364			
Special revenue funds					5,236,052	5,236,052			
Capital projects funds					7,811,019	7,811,019			
Total fund balances	17,573,211	\$ 41,533,412	\$ 195,758	28,058,886	20,627,912	107,989,179			
Total liabilities and fund balances	\$ 36,296,798	\$ 41,533,412	\$ 195,758	\$ 34,828,094	\$ 24,892,574	\$ 137,746,636			

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

STOCKTON UNIFIED SCHOOL DISTRICT

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

JUNE 30, 2004

Total fund balance, governmental funds	\$ 107,989,179
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation. Capital assets at historical cost is \$282,380,083 and accumulated depreciation is \$87,329,271.	195,050,812
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.	2,004,184
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:	1,561,700
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period that it is incurred. The additional liability of unamatured interest owing at the end of the period was:	(2,129,529)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long term liabilities are reported.	(126,138,673)
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full-cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:	<u>(1,917,817)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 176,419,856</u>

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

	General Fund	Building Fund	County School Facilities	Special Reserve Fund for Capital Outlay	Other Governmental Funds	Total Governmental Funds
REVENUES						
State apportionment	\$ 118,421,681				\$ 4,294,811	\$ 122,716,492
Local sources	55,595,490					55,595,490
Total revenue limit	174,017,171				4,294,811	178,311,982
Federal revenues	38,234,639				9,237,062	47,471,701
Other state revenues	63,674,614		\$ 49,497,993		4,314,369	117,486,976
Other local revenues	4,972,226	\$ 215,774	150,329	\$ 271,111	14,119,852	19,729,292
Total revenues	280,898,650	215,774	49,648,322	271,111	31,966,094	362,999,951
EXPENDITURES						
Current:						
Instruction	186,232,606				6,148,691	192,381,297
Instruction-related services:						
Supervision of instruction	16,361,054				305,047	16,666,101
Instructional library, media and tech	1,891,122				39,338	1,930,460
School site administration	20,022,613				776,042	20,798,655
Pupil services:						
Pupil transportation	8,333,655					8,333,655
Food services	34,269					34,269
Other pupil services	16,767,891					16,767,891
Ancillary services	522,919					522,919
Enterprise activities	38,590				10,729	49,319
General administration						
Data processing services	2,877,323					2,877,323
Other general administration	8,613,611				753,650	9,367,261
Plant services	28,359,097				1,415,827	29,774,924
Facilities rents and leases	1,450,471	1,200		46,991,321	2,686,432	51,129,424
Debt Service:						
Principal	760,252			22,750	472,450	1,255,452
Interest and other charges	220,965			109,108	2,557,090	2,887,163
Transfers to other agencies	1,021,325					1,021,325
Total expenditures	293,507,763	1,200		47,123,179	26,384,110	367,016,252
Excess (deficiency) of revenues over expenditures	(12,609,113)	214,574	49,648,322	(46,852,068)	5,581,984	(4,016,301)
OTHER FINANCING SOURCES (USES)						
Interfund transfers out	(6,767,581)	(15,000,000)	(53,917,540)	(283,831)	(8,480,678)	(84,449,630)
Debt proceeds	5,000,000	40,900,419				45,900,419
Other sources					4,454	4,454
Interfund transfers in	3,200,000			73,917,540	7,332,090	84,449,630
Total other financing sources and uses	1,432,419	25,900,419	(53,917,540)	73,633,709	(1,144,134)	45,904,873
Net increase (decrease) in fund balances	(11,176,694)	26,114,993	(4,269,218)	26,781,641	4,437,850	41,888,572
Fund balances - beginning	28,749,905	15,418,419	4,464,976	1,277,245	16,190,062	66,100,607
Fund balances - ending	\$ 17,573,211	\$ 41,533,412	\$ 195,758	\$ 28,058,886	\$ 20,627,912	\$ 107,989,179

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

STOCKTON UNIFIED SCHOOL DISTRICT

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Net change in fund balances - total governmental funds:	\$ 41,888,572
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Capital Outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:	43,605,404
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	1,698,042
Debt Proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount were:	(45,900,419)
Debt Issue Costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:	(6,219)
Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	(75,431)
Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent that they are "available" meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is:	(151,931)
Unmatured interest on long-term debt: In governmental funds, interest on long term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:	(1,143,844)
Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned is:	(357,867)
Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:	32,772
Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full-cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:	<u>(2,646,620)</u>
Change in net assets of governmental activities	<u>\$ 36,942,459</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
ASSETS	
Current assets:	
Cash and equivalents	\$ 7,586,818
Due from other funds	746,364
Accounts receivables	56,275
Prepaid expenses	89,372
Total current assets	<u>8,478,829</u>
LIABILITIES	
Current liabilities:	
Accounts payable	564,123
Due to other funds	2,072
Claims and judgements	3,244,049
Total current liabilities	<u>3,810,244</u>
Long-term liabilities:	
Claims and judgements	6,586,402
Total liabilities	<u>10,396,646</u>
NET ASSETS	
Unrestricted	(1,917,817)
Total net assets	<u>\$ (1,917,817)</u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
OPERATING REVENUES	
Charges for services	<u>\$ 11,824,508</u>
OPERATING EXPENSES	
Claims and administration	6,133,971
Services and operating expenditures	<u>8,389,328</u>
Total operating expenses	<u>14,523,299</u>
Operating loss	<u>(2,698,791)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	<u>52,171</u>
Decrease in net assets	(2,646,620)
Net assets - beginning	<u>728,803</u>
Net assets - ending	<u>\$ (1,917,817)</u>

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2004**

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 12,522,389
Payments to Suppliers	(8,676,405)
Internal Activity - payments to other funds	1,831
Claims paid	<u>(1,784,877)</u>
Net cash provided by operating activities	<u>2,062,938</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	<u>800,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>52,171</u>
Net increase in cash	2,915,109
Balances – beginning of year	<u>4,671,709</u>
Balances – end of year	<u>\$ 7,586,818</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (2,698,791)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	1,443,968
Due from other funds	(746,364)
Prepaid expenses	(13,805)
Accounts payable	405,159
Due to other funds	1,831
Claims and judgements	<u>3,670,940</u>
Net cash provided by operating activities	<u>\$ 2,062,938</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, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,216,898
Receivables	276,566
Total assets	<u>\$ 1,493,464</u>
LIABILITIES	
Accounts payable	\$ 979,430
Due to student groups and other agencies	514,034
Total liabilities	<u>\$ 1,493,464</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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, 2004

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, 2004

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. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

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 and 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, 2004

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.

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.

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:

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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

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

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

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

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

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 **Mello-Roos Fund** is used to account for the construction and acquisition of major capital facilities that are financed by Mello-Roos taxes from a specific geographic area within the district known as community facilities district number two.

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, 2004

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

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. 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, 2004

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, 2004

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 ESTIMATES

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.

O. FUTURE GASB STATEMENT IMPLEMENTATION

In July of 2004, the GASB issued GASB Statement 45 (GASB 45), Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, with required implementation for the District during the 2007/2008 fiscal year. The new statement will significantly change the way state and local governments report their "other post-employment benefits" to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

2. CHARTER SCHOOLS

The Stockton Unified School District operates the James L. Urbani Institute of Language Development and the Institute of Business Management and Law pursuant to *Education Code* Section 47605. The financial activities of these charter schools are in 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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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.

Cash on Hand, in Banks, and in Revolving Fund

As of June 30, 2004, the carrying amount of the District's bank deposits was \$1,615,993 and the bank balance was \$1,683,548. Of the bank balance, \$200,000 was insured by the Federal Depository Insurance Corporation and \$558,601 is held in "Public Funds", which are guaranteed by the financial institution for up to 110% of the account balance. The remainder, \$924,947, was covered by collateral held in the pledging financial institutions' trust departments in the District's name. Cash on hand of \$4,010 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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2004:

	General Fund	Building Fund	Special Reserve for Capital Outlay	County Schools Facility Fund	Other Governmental Funds	Internal Service Funds	Total Governmental Funds
Federal government	\$ 9,272,705				\$ 2,583,557		\$ 11,856,262
State government	7,082,234				415,348		7,497,582
Local government	4,106,681				78,784	\$ 35,944	4,221,409
Interest	118,349	\$ 118,120	\$ 83,281	\$ 8,884	44,670	20,331	393,635
Totals	\$ 20,579,969	\$ 118,120	\$ 83,281	\$ 8,884	\$ 3,122,359	\$ 56,275	\$ 23,968,888

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 \$915,571. This receivable will be collected by the District over the next seven 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 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, 2004 were as follows:

Payable Fund	Receivable Fund			Total
	General Fund	Other Governmental Funds	Internal Service Fund	
General Fund		\$ 521,788	\$ 746,364	\$ 1,268,152
Other Governmental Funds	\$ 1,509,629	9,887		1,519,516
Internal Service Funds	2,072			2,072
Totals	\$ 1,511,701	\$ 531,675	\$ 746,364	\$ 2,789,740

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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, 2004 were as follows:

Transfers Out	Transfers In			Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	
General Fund			\$ 6,767,581	\$ 6,767,581
Building Fund		\$ 15,000,000		15,000,000
County School Facilities Fund		53,917,540		53,917,540
Special Reserve Fund for Capital Outlay Projects			283,831	283,831
Other Governmental Funds	\$ 3,200,000	5,000,000	280,678	8,480,678
Total	\$ 3,200,000	\$ 73,917,540	\$ 7,332,090	\$ 84,449,630

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 11,472,205			\$ 11,472,205
Construction in progress	35,651,802	\$ 48,814,462	\$ (23,126,959)	61,339,305
Total capital assets, not being depreciated	47,124,007	48,814,462	(23,126,959)	72,811,510
Capital assets, being depreciated:				
Improvement of sites	3,479,217	663,522		4,142,739
Buildings	173,077,350	22,282,754		195,360,104
Machinery and equipment	9,785,845	279,885		10,065,730
Total capital assets, being depreciated	186,342,412	23,226,161		209,568,573
Less accumulated depreciation for:				
Improvement of sites	(2,342,180)	(87,267)		(2,429,447)
Buildings	(74,868,165)	(4,527,566)		(79,395,731)
Machinery and equipment	(4,735,235)	(768,858)		(5,504,093)
Total accumulated depreciation	(81,945,580)	(5,383,691)		(87,329,271)
Total capital assets, being depreciated, net	104,396,832	17,842,470		122,239,302
Governmental activities capital assets, net	\$ 151,520,839	\$ 66,656,932	\$ (23,126,959)	\$ 195,050,812

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

For the year ended June 30, 2004, depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 4,564,843
Pupil transportation	229,927
Food services	22,850
Data processing services	
Plant services	32,709
Other general administration	135,112
Depreciation (unallocated portion)	<u>398,250</u>
Total depreciation expense	\$ <u>5,383,691</u>

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>
2005	\$ 536,000	\$ 1,111,206	\$ 1,647,206
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	675,000	973,156	1,648,156
2010-2014	3,845,000	4,310,781	8,155,781
2014-2019	4,810,000	3,291,172	8,101,172
2020-2024	6,145,000	1,945,625	8,090,625
2025-2027	<u>4,510,000</u>	<u>353,500</u>	<u>4,863,500</u>
Subtotal	22,331,000	15,117,058	37,448,058
Plus: Unamortized Premium	<u>232,995</u>		<u>232,995</u>
Totals	\$ <u>22,563,995</u>	\$ <u>15,117,058</u>	\$ <u>37,681,053</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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>
2005	\$ 690,000	\$ 1,276,064	\$ 1,966,064
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	815,000	1,159,514	1,974,514
2010-2014	4,615,000	5,348,554	9,963,554
2015-2019	5,640,000	4,293,256	9,933,256
2020-2024	7,035,000	2,753,628	9,788,628
2025-2028	6,950,000	885,463	7,835,463
Subtotal	28,000,000	19,346,671	47,346,671
Plus: Unamortized Premium	467,230		467,230
Totals	<u>\$ 28,467,230</u>	<u>\$ 19,346,671</u>	<u>\$ 47,813,901</u>

General Obligation Bonds

In January 2004, the District issued General Obligation Bonds in the amount of \$29,200,000, with interest rates ranging from 3% to 5%.

The bonds mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 0	\$ 1,207,531	\$ 1,207,531
2006	725,000	1,282,334	2,007,334
2007	760,000	1,246,084	2,006,084
2008	795,000	1,208,084	2,003,084
2009	830,000	1,168,334	1,998,334
2010-2014	4,665,000	5,348,200	10,013,200
2015-2019	5,630,000	4,428,285	10,058,285
2020-2024	6,990,000	3,096,768	10,086,768
2025-2029	8,805,000	1,298,619	10,103,619
Subtotal	29,200,000	20,284,239	49,484,239
Plus: Unamortized Premium	535,441		535,441
Totals	<u>\$ 29,735,441</u>	<u>\$ 20,284,239</u>	<u>\$ 50,019,680</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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, 2004, the principal balance outstanding was \$14,545,000.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	605,000	665,178	1,270,178
2010-2014	3,570,000	2,819,588	6,389,588
2015-2019	4,705,000	1,741,955	6,446,955
2020-2022	3,530,000	386,729	3,916,729
Totals	<u>\$ 14,545,000</u>	<u>\$ 8,543,811</u>	<u>\$ 23,088,811</u>

Certificates of Participation

In January 2004, the District issued Certificates of Participation in the amount of \$11,999,981, with interest rates ranging from 1.7% to 5.5%. As of June 30, 2004, the principal balance outstanding was \$11,999,981.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 24,583	\$ 418	\$ 25,001
2006	38,443	1,557	40,000
2007	79,609	5,391	85,000
2008	117,718	12,282	130,000
2009	157,046	22,954	180,000
2010-2014	1,101,726	398,273	1,499,999
2015-2019	1,741,834	1,453,166	3,195,000
2020-2024	2,839,203	4,265,795	7,104,998
2025-2029	3,052,534	7,322,466	10,375,000
2030-2034	2,847,285	10,157,717	13,005,002
Totals	<u>\$ 11,999,981</u>	<u>\$ 23,640,019</u>	<u>\$ 35,640,000</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Qualified Zone Academy Bonds

On June 1, 2000, the District issued \$1,635,000 in Qualified Zone Academy Bonds and entered into a purchase contract in the amount of \$1,635,000 with the Bank of Agriculture 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.

On November 24, 2003, the District issued \$5,000,000 in Qualified Zone Academy Bonds and entered into a purchase contract in the amount of \$5,000,000 with the Union Safe Deposit Bank (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 \$2,729,105 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 4.119 percent per annum (compounded monthly), and payable on November 24, 2018. The certificate of deposit together with interest earnings will be sufficient to repay the Bonds, which mature on November 24, 2018.

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>
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	408,786	30,931	439,717
2010-2011	600,404	21,436	621,840
Totals	<u>\$ 2,512,972</u>	<u>\$ 307,453</u>	<u>\$ 2,820,425</u>

State School Building Loans Payable

State school building loan activity for the year ended June 30, 2004 was as follows:

<u>Balance July 1, 2003</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2004</u>
<u>\$ 10,897</u>	<u>\$ 1,096</u>	<u>\$ 2,450</u>	<u>\$ 9,543</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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 post-employment 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 post-employment health care benefit provisions are established per contractual agreement with employee groups. As of June 30, 2004, 278 retirees met these eligibility requirements. The District pays up to \$582.85 per month for health benefits of retirees to the age of 65 on a pay-as-you-go basis. During the year, expenditures of \$1,175,419 were recognized for postretirement health care benefits. The liability at June 30, 2004 is \$4,478,993 and is based on the estimated lives of participants.

Capital Leases

The District leases telephone, duplicating, and athletic equipment under an agreement that provide for title to pass upon expiration of the lease period. Future minimum lease payments as of June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2005	\$ 623,897
2006	607,078
2007	556,623
2008	<u>274,458</u>
Total	2,062,056
Less Amount Representing Interest	<u>(109,776)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,952,280</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bonds - 2001	\$ 22,574,586		\$ 10,591	\$ 22,563,995	\$ 530,591
General Obligation Bonds - 2003	28,487,112		19,882	28,467,230	709,882
General Obligation Bonds - 2004		\$ 29,746,368	10,927	29,735,441	21,855
Certificates of Participation - 1997	15,015,000		470,000	14,545,000	495,000
Certificates of Participation - 2004		11,999,981		11,999,981	24,583
Qualified Zone Academy Bonds	1,635,000			1,635,000	
Qualified Zone Academy Bonds		5,000,000		5,000,000	
CA Energy Commission Loan	2,858,223		345,251	2,512,972	357,113
State School Building Loans	10,897	1,096	2,450	9,543	
Post-Employment Benefits	4,804,465		325,472	4,478,993	895,799
Claims Liability	6,159,511	3,670,940		9,830,451	3,244,049
Capital Leases	2,508,369		556,089	1,952,280	572,294
Compensated Absences	2,880,370	357,868		3,238,238	323,824
Total	\$ 86,933,533	\$ 50,776,253	\$ 1,740,662	\$ 135,969,124	\$ 7,174,090

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 \$500,000 per incident. The District is fully self-insured for dental care for all employees. All claims liabilities are administered by outside parties and the Self-Insurance Fund accounts for and liquidates these insurance activities. At June 30, 2004, the Self-Insurance Fund had a deficit fund balance of \$2,348,069.

During the year ended June 30, 2004, 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 has accrued a liability of \$9,830,451 at June 30, 2004 for its self-insured claims and deductibles in the Self-Insurance Fund, which includes an amount for claims incurred but not reported. The District's property and liability and worker's compensation claims liability is based upon actuarial determined estimate. Discount rates ranged from 82 to 83.6 percent which was used to determine the present value of the claims liability. The majority of these claims liabilities are long-term in nature and the District's intent is to fund these liabilities over time. Management has estimated \$3,244,049 of these liabilities will be incurred in the 2004-05 fiscal year.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Changes in claims liability for the years ended June 30, 2004 and 2003 are as follows:

	Liability Beginning of Year	Claims and Changes in Estimates	Claims Payments	Liability End of Year
2003-2004	\$ 6,159,511	\$ 5,455,817	\$ (1,784,877)	\$ 9,830,451
2002-2003	\$ 1,577,419	\$ 8,691,980	\$ (4,109,888)	\$ 6,159,511

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.

Condensed audited financial information for NCSReLiEF for the year ended June 30, 2003, most current information available, 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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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

Total Assets	\$ <u>139,053,000</u>
Total Liabilities	\$ 107,855,000
Retained Earnings	<u>31,198,000</u>
	\$ <u>139,053,000</u>
Total Revenues	\$ 40,290,000
Total Expenses	<u>56,733,000</u>
Net Increase in Retained Earnings	\$ <u>(16,443,000)</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.

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 \$94,720,748 at June 30, 2004. 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).

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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, 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 2003-04 was 10.42% 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, 2004, 2003, and 2002 were \$4,437,707, \$1,499,097, and \$0, respectively, and equal 100% of the required contributions for each year.

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 2003-04 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, 2004, 2003, and 2002 were \$12,350,585, \$12,220,313, and \$10,486,578, respectively, and equal 100% of the required contributions for each year.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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. 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 for K-12 education. These payments consisted of state general fund contributions to STRS in the amount of \$3,519,917 (2.28% of salaries subject to STRS).

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>GAAP</u>	<u>Favorable</u>
			<u>Basis</u>	<u>(Unfavorable)</u>
REVENUES				
State apportionment	\$ 125,161,015	\$ 123,460,941	\$ 118,421,681	\$ (5,039,260)
Local sources	<u>47,671,339</u>	<u>49,049,369</u>	<u>55,595,490</u>	<u>6,546,121</u>
Total revenue limit	172,832,354	172,510,310	174,017,171	1,506,861
Federal revenues	39,707,260	48,227,552	38,234,639	(9,992,913)
Other state revenues	66,825,112	72,102,220	63,674,614	(8,427,606)
Other local revenues	<u>6,803,572</u>	<u>8,348,888</u>	<u>4,972,226</u>	<u>(3,376,662)</u>
Total revenues	<u>286,168,298</u>	<u>301,188,970</u>	<u>280,898,650</u>	<u>(20,290,320)</u>
EXPENDITURES				
Certificated personnel salaries	142,221,623	146,909,596	150,264,596	(3,355,000)
Classified personnel salaries	44,025,702	46,329,539	46,585,655	(256,116)
Employee benefits	52,551,337	56,096,510	55,977,475	119,035
Books and supplies	23,150,699	39,832,833	16,525,279	23,307,554
Services and other operating expenditures	25,008,226	26,124,468	22,374,353	3,750,115
Capital outlay	611,816	694,122	531,847	162,275
Other outgo	35,000	769,573	1,021,325	(251,752)
Allocation of indirect costs	(642,301)	(648,541)	(753,650)	105,109
Debt service	<u>760,483</u>	<u>979,599</u>	<u>980,883</u>	<u>(1,284)</u>
Total expenditures	<u>287,722,585</u>	<u>317,087,699</u>	<u>293,507,763</u>	<u>23,579,936</u>
Excess of expenditures over revenues	<u>(1,554,287)</u>	<u>(15,898,729)</u>	<u>(12,609,113)</u>	<u>3,289,616</u>
OTHER FINANCING SOURCES				
Interfund transfers in		3,200,000	3,200,000	
Other sources			5,000,000	5,000,000
Interfund transfers out	<u>(1,088,893)</u>	<u>(968,000)</u>	<u>(6,767,581)</u>	<u>(5,799,581)</u>
Total other financing sources	<u>(1,088,893)</u>	<u>2,232,000</u>	<u>1,432,419</u>	<u>(799,581)</u>
Net increase in fund balance	(2,643,180)	(13,666,729)	(11,176,694)	2,490,035
Fund balance – beginning	<u>27,014,707</u>	<u>28,749,905</u>	<u>28,749,905</u>	
Fund balance – ending	<u>\$ 24,371,527</u>	<u>\$ 15,083,176</u>	<u>\$ 17,573,211</u>	<u>\$ 2,490,035</u>

SUPPLEMENTARY INFORMATION SECTION

STOCKTON UNIFIED SCHOOL DISTRICT

JUNE 30, 2004

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, 2004

	Second Period Report	Annual Report
Elementary:		
Kindergarten	2,846	2,853
Grades 1 through 3	9,349	9,352
Grades 4 through 6	8,920	8,897
Grades 7 and 8	5,410	5,362
Special Education	686	687
Opportunity Schools	45	45
Home and Hospital	8	8
Community Day School	39	23
Extended Year ADA	41	41
Elementary Totals	27,344	27,268
 High School:		
Grades 9 through 12, Regular Classes	7,597	7,453
Special Education	419	410
Continuation Education	436	411
Opportunity Schools	92	100
Home and Hospital	14	16
Community Day School	69	41
Extended Year ADA	26	26
High School Totals	8,653	8,457
 Classes for Adults:		
Concurrently Enrolled	89	76
Not Concurrently Enrolled	1,390	1,300
ADA Totals	37,476	37,101
		<u>Hours of Attendance</u>
Supplemental Instruction:		
Elementary	277,833	317,414
Secondary	361,977	361,977

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

YEAR ENDED JUNE 30, 2004

<u>Charter School</u>	<u>Included/Not Included</u>
James Urbani Institute for Language Development	Included
Institute of Business Management and Law	Included

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

YEAR ENDED JUNE 30, 2004

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2003-04 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	54,000	180	175	In Compliance
Grades 4 - 6	53,850	54,000	54,000	180	175	In Compliance
Grades 7 - 8	58,500	54,000	58,500	180	175	In Compliance
Grades 9 - 12	64,980	64,800	64,980	180	175	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, 2004

GENERAL FUND				
	June Adopted Budget 2005	2004	2003	2002
Revenues and other financial sources	\$ 310,294,230	\$ 289,098,650	\$ 279,437,492	\$ 278,476,535
Expenditures	306,953,962	293,507,763	289,479,776	273,869,674
Other uses and transfers out	<u>2,682,172</u>	<u>6,767,581</u>	<u>3,564,145</u>	<u>4,267,893</u>
Total outgo	309,636,134	300,275,344	293,043,921	278,137,567
Change in fund balance	<u>658,096</u>	<u>(11,176,694)</u>	<u>(13,606,429)</u>	<u>338,968</u>
Ending fund balance	<u>\$ 18,977,671</u>	<u>\$ 17,573,211</u>	<u>\$ 28,749,904</u>	<u>\$ 42,356,333</u>
Available reserves ¹	<u>\$ 6,721,902</u>	<u>\$ 6,229,603</u>	<u>\$ 5,860,878</u>	<u>\$ 6,395,119</u>
Designated for economic uncertainties	<u>\$ 6,192,723</u>	<u>\$ 6,229,603</u>	<u>\$ 5,860,878</u>	<u>\$ 4,432,822</u>
Undesignated fund balance	<u>\$ 529,179</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,962,297</u>
Available reserves as a percentage of total outgo	2%	2%	2%	2.3%
Total long-term debt	\$ 133,257,806	\$ 135,969,124	\$ 86,933,533	\$ 52,200,765
Average daily attendance at P-2 ²	36,397	35,997	35,922	35,939

¹ 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).

² Excludes Adult Education ADA.

The general fund balance has decreased by \$24,783,123 over the past two years. The fiscal year 2004-05 budget projects a increase of \$658,096 (1%). 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 two of the past three years, and does not anticipate incurring an operating deficit during the 2004-2005 fiscal year. Total long-term debt has increased by \$83,768,359 over the past two years.

Average daily attendance has increased by 58 over the past two years. An increase of 400 ADA is anticipated during fiscal year 2004-05.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

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	\$ 22,449,822
Transition to Teaching Program	84.350A		100,552
Professional Dev'l Music Education	84.351C		29,609
Federal School Renovation Classroom Technology	84.352	14318	69,848
Gear It Up	84.334	10088	742,214
Improving School Library	84.364	Unknown	148,124
Title V – Innovative Education Program Strategies	84.298	13340	591,812
Elementary Counseling Demo Program	84.215E		321,649
High School Reform	84.215	13073	166,748
Title X – McKinney-Vento Homeless Assistance	84.276	24166	130,000
Title II – Eisenhower	84.281	13207	101,741
Indian Education	84.060	10011	400,170
Charter School Grants	84.282	03150	517,885
JROTC	84.none		107,809
Improving Teacher Quality	84.367	14341	2,344,637
Title III – Immigrant Education Program	84.365		75,409
Title III – Limited English Proficiency	84.365	18004	806,850
Subtotal 84.365			<u>882,259</u>
Educational Technology	84.318		30,000
Title II, Part D, Technology	84.318		307,740
Enhancing Education Through Technology	84.318		572,606
Subtotal 84.318			<u>910,346</u>
Vocational Education – Section 124	84.048	03573	507,995
Vocational Education Title II - Part C – Sec. 132	84.048	03577	82,050
Subtotal 84.048			<u>590,045</u>
Title IV – Safe and Drug-Free Schools	84.186	03453	748,139
Title IV – SDFS – Program Development	84.186	03452	438,664
Subtotal 84.186			<u>1,186,803</u>
Adult Education: Priority 1-3	84.002	13973	1,094
Adult Education: Priority 1-3, ESL	84.002	14302	51,598
Adult Education: Priority 4, Family Literacy	84.002	13977	25,476
Adult Education: Priority 5, Adult Secondary Education	84.002	13978	19,676
Adult Education: Priority 1-3, ESL Citizenship	84.002	13974	164,788
Adult Education: English Literacy and Citizenship	84.002	14109	386,127
Subtotal 84.002			<u>648,759</u>
IDEA Part B (Special Education Cluster):			
Local Assistance	84.027	13379	4,921,746
Preschool Local Entitlement	84.027	13682	205,941
Federal Preschool	84.173	13430	323,102
Infant Discretionary	84.027	13612	56,022
Local Staff Development	84.027	13613	15,899
Pre-School Staff Development	84.173	13431	3,076
Low Incidence	84.027	13459	10,275
Early Intervention	84.181	13761	67,389

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

Workability I Subtotal Special Education Cluster Total U.S. Department of Education U.S. Department of Health and Human Services: Passed Through California Department of Health Services: Medi-Cal Option Billing U.S. Department of Agriculture: Passed Through California Department of Education: Child Care and Adult National School Lunch Total U.S. Department of Agriculture Total Expenditures of Federal Awards	84.027 93.778 10.558 10.555	13705 10013 03529 Unknown	217,076 <u>5,820,526</u> <u>38,261,358</u> 868,682 16,098 <u>8,444,758</u> <u>8,460,856</u> <u>\$ 47,590,896</u>
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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 2003-04 was \$573,181.

STOCKTON UNIFIED SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance	\$ 18,319,575
Audit adjustments:	
Increase in Due to Other Funds	<u>(746,364)</u>
June 30, 2004 Audited Financial Statement Fund Balance	\$ <u>17,573,211</u>
	<u>Self-Insurance Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance	\$ 576,507
Audit adjustments:	
Increase in Due from Other Funds	746,364
Increase in Claims Liabilities	<u>(3,670,940)</u>
June 30, 2004 Audited Financial Statement Fund Balance	\$ <u>(2,348,069)</u>

AUDITOR'S COMMENTS

All other fund balances agreed to the unaudited actuals.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

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 CHARTER SCHOOLS

This schedule lists all charter schools chartered by the District and displays information for each charter school on whether or not it is included in the District's financial statements.

C. 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.

D. 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.

E. 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.

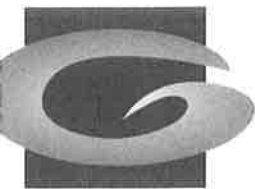
F. RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS

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, 2004.

OTHER INDEPENDENT AUDITOR'S REPORTS



Gilbert Associates, Inc.
CPAs and Advisors

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

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

We have audited the financial statements of 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, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 an opinion 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 conditions are described in the accompanying Findings and Recommendations Section as items 04-01 and 04-02.

A material weakness is a reportable 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 caused by error or fraud 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 conditions described above are not a material weakness.

Compliance and Other Matters

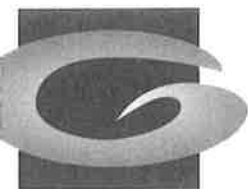
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Findings and Recommendations Section as item 04-03.

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.

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

GILBERT ASSOCIATES, INC.

November 5, 2004



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, 2004. 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, 2004.

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.

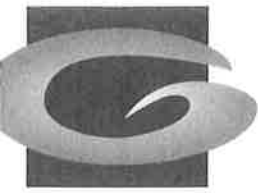
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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.

November 5, 2004



**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, 2004, and have issued our report thereon dated November 5, 2004. Our audit was made 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.

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:

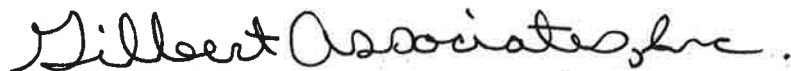
<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	No (see next page)
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers/Programs	6	N/A
Instructional Time and Staff Development Reform Program	7	Yes
Instructional Time For:		Yes
School Districts	4	Yes
County Offices of Education	3	N/A
Community Day Schools	9	No (see next page)

Description	Procedures in Controller's Audit Guide	Procedures Performed
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
One school serving K-3	4	Yes
State Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Yes
GANN Limit Calculation	1	Yes

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

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

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



GILBERT ASSOCIATES, INC.

November 5, 2004

FINDINGS AND RECOMMENDATIONS SECTION

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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	_____

Noncompliance material to financial statements noted?

	_____ Yes	_____ X No
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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)?

	_____ Yes	_____ X No
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Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education
84.010	Title I
84.365	Immigrant Education
10.555	National School Lunch Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$1,427,727

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

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

State Awards

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Reportable conditions identified not
considered to be material weaknesses?

 X Yes None Reported

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

Unqualified

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROLS – REPORTABLE CONDITIONS

04-1. ASSOCIATED STUDENT BODY – CDDC #30000

Finding: We found that at two school sites cash turned in to the school site ASB clerks was usually not accompanied by cash remittances or other documentation. Cash received by 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 loss of AS funds.

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

District Response: School sites have received instruction from district staff on the proper cash receipting procedures. District staff will continue to work with sites and reinforce the importance of adhering to proper cash receipting procedures.

04-2. ASSOCIATED STUDENT BODY – CDDC #30000

Finding: When the year-end physical inventory of one of the district's student store was taken, a detailed reconciliation of inventory to sales was not performed.

Recommendation: The principal should ensure that the ASB bookkeeper performs a detailed reconciliation of cash receipts to sales, after the year-end inventory is taken.

District Response: The need to maintain detailed records in order to establish the value of inventory on hand and also reconcile the inventory to sales has been discussed with school sites. District staff requires school sites with student stores, to submit physical inventories on a quarterly basis. In order to ensure compliance with district procedures, an expanded training effort will focus on the reconciliation of cash receipts to sales.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION III - STATE COMPLIANCE

04-3. KINDERGARTEN CONTINUATION – AUGUST ELEMENTARY SCHOOL– CDDC #40000

Finding: California Education Code Section 46300 allows a district to claim apportionment credit for a kindergarten student who has already completed one school year, only if the district has on file an agreement signed by the student's parent or guardian. At August Elementary School, we found that two kindergarten students were retained but no agreements were on file. We determined the effect of this condition to be an overstatement of 1.2 ADA, which equates to a fiscal impact of \$5,816.

Recommendation: For each kindergarten student who is retained, the principal should ensure that an agreement is signed by the student's parent or guardian and kept on file. If a retention letter 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. The District revised and resubmitted its P-2.

District Response: The overstatement of 1.2 ADA has been removed from the district's attendance report. Additionally, staff will continue to reinforce proper kindergarten continuation procedures with school sites.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION III - FEDERAL COMPLIANCE

There were no federal compliance findings reported.

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

Recommendation	Current Status	District Explanation If Not Implemented
SECTION II – FINANCIAL STATEMENT FINDINGS		
INTERNAL CONTROLS – REPORTABLE CONDITIONS		
03-1. ASSOCIATED STUDENT BODY – CDDC #30000		
<p>1. 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 <i>Associated Student Body Activities Handbook</i> all deposit slips are to have attached supporting documentation. Adequate documentation over cash receipts discourages theft or misappropriation of ASB funds.</p> <p>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</p>	<p>Finding continued in current year audit.</p>	
ASSOCIATED STUDENT BODY – CDDC #30000		
<p>1. 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.</p>	<p>Implemented</p>	

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004

Recommendation	Current Status	District Explanation If Not Implemented
<p>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</p> <p>We recommend segregating a portion of this process to create an independent verification of information on total cash receipts.</p>		
SECTION III – FEDERAL COMPLIANCE		
<p>03-2. SAFE AND DRUG FREE SCHOOLS – CDDC #50000</p> <p>Per OMB Circular A-87, <i>Cost Principles for State, Local, and Indian Tribal Governments</i>, (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. We found that no time certifications were maintained to support salaries and benefits charged to the Safe and Drug Free Schools program.</p>	Implemented	
<p>03-3. SPECIAL EDUCATION – CDDC #50000</p> <p>Per OMB Circular A-87, <i>Cost Principles for State, Local, and Indian Tribal Governments</i>, (attachment B, item 11[h]), where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries</p>	Implemented	

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2004

Recommendation	Current Status	District Explanation If Not Implemented
<p>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. We found that no time certifications were maintained to support salaries and benefits charged to the Special Education program.</p>		
<p>03-4. MEDI-CAL BILLING OPTION – CDDC #50000</p>	Implemented	
<p>Per OMB Circular A-87, <i>Cost Principles for State, Local, and Indian Tribal Governments</i>, (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.</p>		
<p>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</p>		

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2004

Recommendation	Current Status	District Explanation If Not Implemented
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. We found that no time certifications were maintained to support salaries and benefits charged to the Medi-Call Billing Option program.		

