

STOCKTON UNIFIED SCHOOL DISTRICT

**COUNTY OF SAN JOAQUIN
STOCKTON, CALIFORNIA**

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

YEAR ENDED JUNE 30, 2005

STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet – Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Fund Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Statement of Fiduciary Net Assets	26
Notes to Financial Statements	27

STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule:	
General Fund	50
SUPPLEMENTARY INFORMATION SECTION	
Organization	51
Schedule of Average Daily Attendance	52
Schedule of Charter Schools	53
Schedule of Instructional Time	54
Schedule of Financial Trends and Analysis	55
Schedule of Expenditures of Federal Awards	56
Reconciliation of Annual Financial and Budget Report (Unaudited Actuals) with Audited Fund Financial Statements	58
Notes to Supplementary Information	59
OTHER INDEPENDENT AUDITOR'S REPORTS	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	60
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	62
Independent Auditor's Report on State Compliance	64
FINDINGS AND RECOMMENDATIONS SECTION	
Schedule of Audit Findings and Questioned Costs	66
Status of Prior Year Findings and Recommendations	73

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, 2005, 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2004-05*, published by the Education Audit Appeals Panel. 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, 2005, 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 January 5, 2006, 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.

2880 Gateway Oaks Dr. • Suite 100 • Sacramento, CA 95833
101 Parkshore Dr. • Suite 100 • Folsom, CA 95630

Phone 916.646.6464 • Fax 916.641.2727
<http://www.gilbertcpa.com>

The Management's Discussion and Analysis on pages 3 through 16 and the budgetary comparison information on page 50 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 2004-05*, published by the Education Audit Appeals Panel. 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.

January 5, 2006



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2005, 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

- Capital assets, net of depreciation, increased by \$55.9 million. Projects completed include the modernization of A.A. Stagg High School at a cost of \$13.0 million, the \$6.8 million relocation of Kohl Elementary School, and modernization projects at August Elementary and Washington Elementary Schools totaling \$2.9 million. In addition, a \$1.6 million cold/freezer storage facility was completed at the district's warehouse.
- Construction continued for the Cesar Chavez High School. Construction costs at June 30, 2005 totaled \$49.0 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 \$97.3 million at the end of the fiscal year. Included in the total is \$49.0 million for the Cesar Chavez High School, \$21.4 million for the construction of Maxine Hong-Kingston, Wilhelmina Henry, and Richard Pittman Elementary Schools, \$22.4 million for the modernization of Fremont, Hamilton, and Webster Middle Schools, and \$4.5 million for a number of construction, modernization and deferred maintenance projects.
- Long-term debt increased by a net \$3.2 million. This change was due in part to the increase of \$3.5 million to the Workers Compensation and Property claims liability, the \$2.3 million financing of six school buses and a cooler/freezer unit installed in the district's warehouse, and a reduction of \$2.7 million from the normal repayment of debt principal.

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:

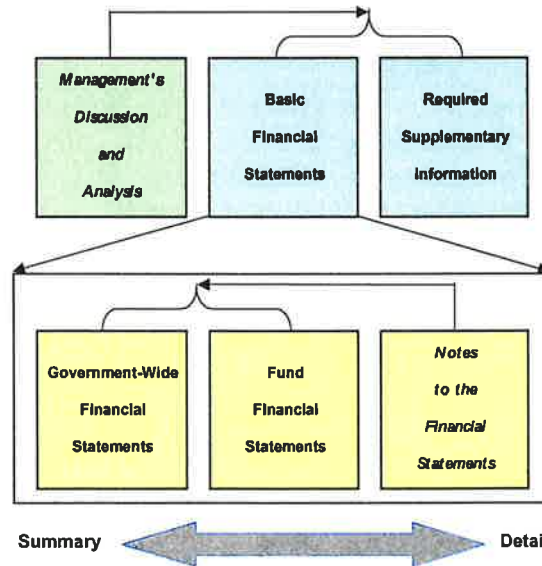
- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the district's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the district, reporting the district's 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 explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.
 - *Internal Service funds* are used to report activities that provide supplies and services for the district's other programs and activities. The district currently has two internal service funds – the self-insurance fund and the retiree benefits fund.
- *Fiduciary funds* – The district is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the district's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the government-wide financial statements because the district cannot use these assets to finance operations.

Financial Analysis of the District as a Whole

The computation of district net assets at June 20, 2005 and 2004, along with the year-over-year change, is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2005	2004	
Current and other assets:			
Cash	\$ 94,379,550	\$ 115,202,546	\$ (20,822,998)
Receivables	25,325,059	23,968,888	1,356,172
Inventories	1,612,811	1,514,094	98,716
Other current assets	1,601,474	4,311,898	(2,710,423)
Capital assets, net of depreciation	250,965,340	195,050,812	55,914,528
Total assets	373,884,234	340,048,238	33,835,995
Long-term debt outstanding	139,136,639	135,969,124	3,167,514
Other liabilities	40,121,438	27,659,258	12,462,180
Total liabilities	179,258,077	163,628,382	15,629,694
Net assets:			
Invested in capital assets, net of related debt	164,680,239	118,162,782	15,124,549
Restricted	25,175,358	54,955,578	5,458,897
Unrestricted	4,770,561	3,301,496	(2,377,145)
Total Net Assets	\$ 194,626,157	\$ 176,419,856	\$ 18,206,301

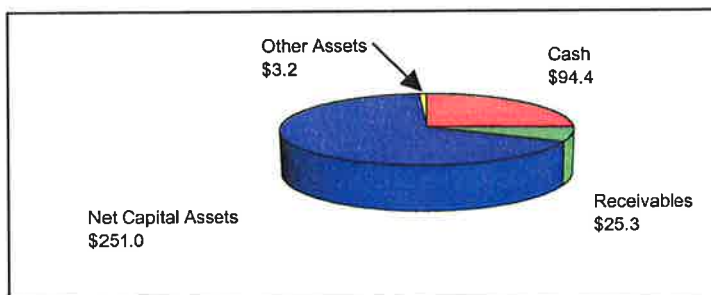
Total assets increased by a net total of \$33.8 million during the 2005 fiscal year. Cash accounts decreased by \$20.8 million, while Capital assets, net of depreciation, increased by a total of \$55.9 million from the prior year. The increases to Capital assets will be more fully discussed later in this report.

Total liabilities increased by a net \$15.6 million. Long-term debt increased by \$3.2 million, while other liabilities, including accounts payable and deferred revenue increased by \$12.4 million. Long-term debt will also be discussed later in this report.

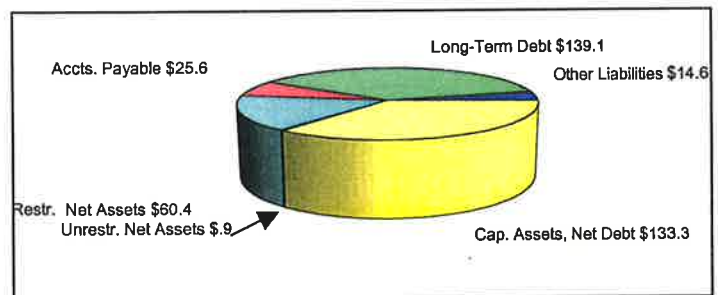
The difference between the \$33.8 million increase to Total assets and the \$15.6 million increase to Total liabilities results in a net \$18.2 million increase to Total Net Assets, a 10.32% change from the balance at June 30, 2004.

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

Assets by Category
(in millions)



Liabilities and Net Assets by Category
(in millions)

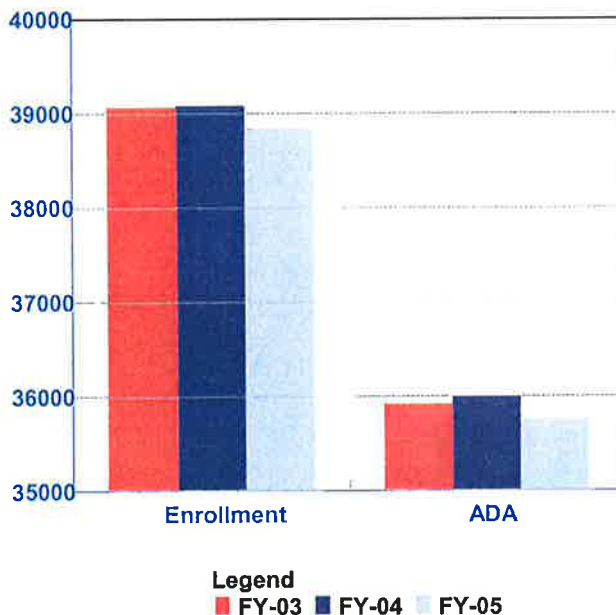


Changes in Net Assets

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

	Government-Wide Activities		Year Over Year Change
	2005	2004	
Revenues – Program:			
Charges for Services	\$ 3,656,460	\$ 3,694,630	\$ (38,170)
Operating Grants and Contributions	110,722,017	101,936,967	8,785,050
Capital Grants and Contributions	9,747,688	49,497,993	(39,750,305)
Revenues – General:			
Unrestricted Federal and State Aid	163,076,490	138,702,645	24,373,845
Taxes Levied for General Purposes	37,663,376	54,829,326	(17,165,950)
Taxes Levied for Debt Service	5,374,575	2,955,617	2,418,958
Interest and Investment Earnings	2,103,971	1,191,160	912,811
Other General Revenues	14,025,153	10,035,905	3,989,248
Total Revenues	346,369,730	362,844,243	(16,474,513)
Expenses:			
Instruction	197,358,244	200,434,357	(3,076,113)
Pupil and Instructional Services	77,001,447	76,838,183	163,264
General Administration	17,391,529	13,343,771	4,047,758
Plant Services	30,370,645	29,926,931	443,714
Other Expenses	6,041,564	5,358,542	683,022
Total Expenses	328,163,429	325,901,784	2,261,645
Increase (Decrease) in Net Assets	18,206,301	36,942,459	(18,736,158)
Net Assets, Beginning of the Year	176,419,856	139,477,397	36,942,459
Net Assets, End of the Year	\$ 194,626,157	\$ 176,419,856	\$ 18,206,301

For the 2005 fiscal year, total district revenues were \$346.4 million. Total district expenses were \$328.2 million. The difference, \$18.2 million, is an increase to net assets, bringing total net assets at June 30, 2005 to \$194.6 million.



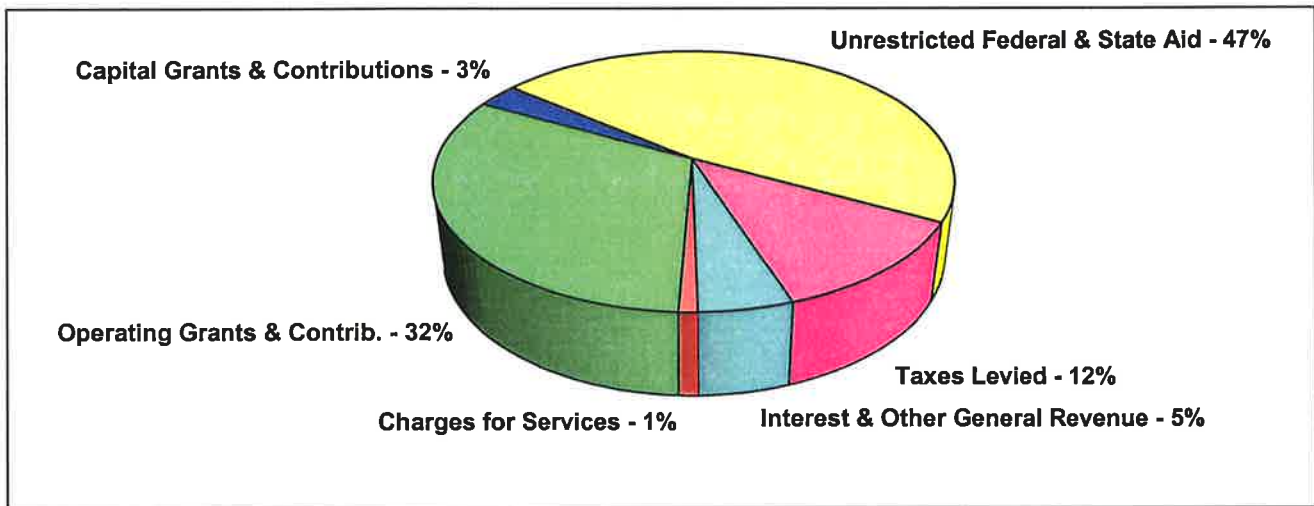
A main source of revenue for the district is the State Aid portion of the Revenue Limit, included in the Unrestricted Federal and State Aid total. The Revenue Limit is based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days 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 2003, 2004, and 2005. Total second month enrollment in Grades K – 12 for the 2005 fiscal year was 38,843 students, excluding charter school enrollment. Enrollment at the elementary and middle grades has declined. This loss has been partially offset by an increase in enrollment at the grades 9 – 12.

P-2 ADA has also declined. For the 2005 fiscal year, the P-2 ADA totaled 35,756, a decrease of 241 ADA from the prior year.

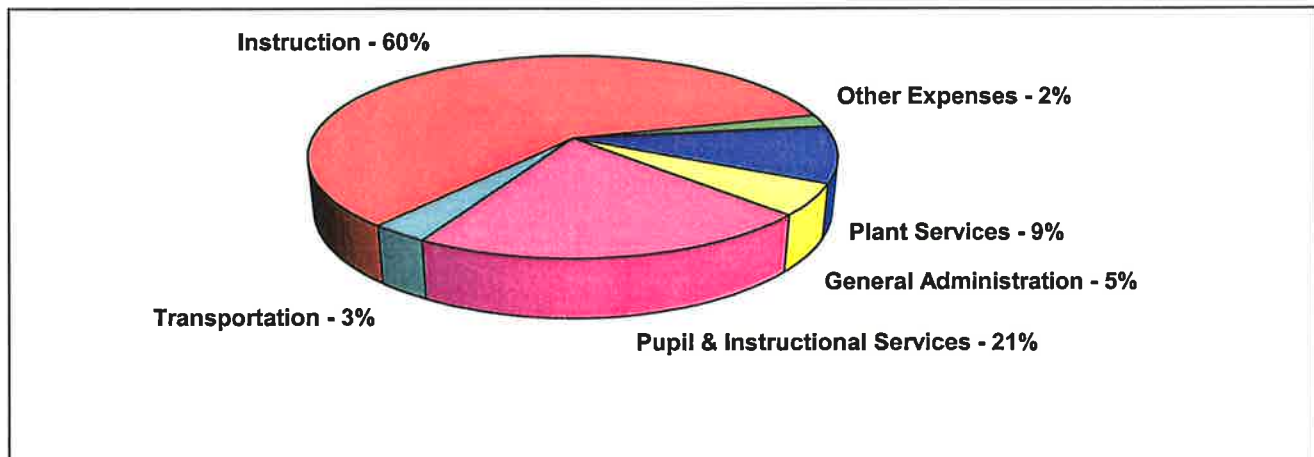
The following graph displays the Government-wide revenue sources by percentage.

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	
	2005	2004	2005	2004
Instruction, Instruction-related Services and Pupil Services	\$ 274,359,691	\$ 277,272,540	\$ 157,728,282	\$ 129,808,655
General Administrative and Plant Services	47,280,313	42,689,398	40,260,326	38,100,550
Ancillary Services	481,861	522,919	425,557	471,342
Totals	\$ 322,121,865	\$ 320,484,857	\$ 198,414,165	\$ 168,380,547

This table displays by function the total and net cost of services provided for the 2005 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, 2005, the district had fourteen governmental funds reporting a combined fund balance of \$70.8 million, a decrease of \$37.2 million over the prior year. Of these funds, nine had revenues that exceeded expenditures in 2005, 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
	2005	2004	
General Fund	\$ 17,049,041	\$ 17,573,213	\$ (524,172)
Charter Schools Special Revenue Fund	118,193	39,411	78,782
Adult Education Fund	3,916,974	3,195,881	721,093
Child Development Fund	191,547	170,882	20,665
Cafeteria Special Revenue Fund	609,201	2,452,998	(1,843,797)
Deferred Maintenance Fund	133,503	2,252	131,251
Building Fund	272,384	41,533,412	(41,261,028)
Capital Facilities Fund	9,531,446	5,816,300	3,715,146
County School Facilities Fund	212,389	195,758	16,631
Special Reserve for Capital Outlay Projects	26,454,706	28,058,886	(1,604,180)
Capital Proj. Fund for Blended Component Units	4,337,457	1,994,718	2,342,739
Bond Interest and Redemption Fund	2,735,336	1,933,854	801,482
Tax Override Fund	18,690	20,528	(1,838)
Debt Service Fund	5,195,895	5,001,086	194,809
Totals	\$ 70,776,762	\$ 107,989,179	\$ (37,212,417)

General Fund Budgetary Highlights

The district's 2005 General Fund operating budget was adopted by the Governing Board in June of 2004. As adopted, projected revenues totaled \$310.3 million. Budgeted expenditures totaled \$309.6 million, with revenues projected to exceed expenditures by approximately \$0.7 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 following tables 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	\$ 180,155,595	\$ 181,232,932	\$ (1,077,337)
Federal Revenue	40,381,407	53,130,514	(12,749,107)
Other State Revenue	69,570,140	71,058,224	(1,488,084)
Other Local Revenue	4,988,011	6,145,756	(1,157,745)
Transfers In/Other Sources	1,043,804	965,000	78,804
Total Revenue	\$ 296,138,957	\$ 312,532,426	\$ (16,393,469)

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Expenditures:			
Certificated Salaries	\$ 146,899,532	\$ 148,483,611	\$ (1,584,079)
Classified Salaries	45,524,132	46,741,576	(1,217,444)
Employee Benefits	62,143,004	63,068,726	(925,722)
Books and Supplies	13,978,566	33,107,970	(19,129,404)
Services, Other Operating Expenses	26,221,203	28,441,899	(2,220,696)
Capital Outlay	198,713	533,538	(334,825)
Other Outgo/ Direct Support/Indirect Costs	729,977	985,538	(255,561)
Transfers Out/Other Uses	968,000	1,427,783	(459,783)
Total Expenditures	\$ 296,663,127	\$ 322,790,641	\$ (26,127,514)

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 \$1.1 million less than budget due to lower than expected Average Daily Attendance (ADA) of district students.
- Federal revenue was \$12.7 million less than budgeted. Unexpended federal revenue at year-end was deferred and rebudgeted in the following year to allow for the balancing of program revenue with the related expenditures.
- State revenue was \$1.5 million less than budget due, in part, to budget cut revenue deferrals.
- Other local revenue was \$1.2 million less than budgeted. Interest rates remained low during the year, resulting in less interest income earned on invested funds than budgeted.
- The salaries of certificated and classified personnel were \$2.8 million less than budget due to staffing decreases and better monitoring of overtime and other additional compensation accounts.

- The books and supplies expenditure category was \$19.1 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 \$2.2 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 2005, along with the increase or decrease to fiscal year 2004 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

	General Fund			
	FY-2005 Actual	Percent Of Total	Increase (Decrease) from FY-2004	Percent Increase or (Decrease)
Revenues:				
Revenue Limit	\$ 180,155,595	61.05	\$ 6,138,424	3.53
Federal Revenue	40,381,407	13.68	2,146,768	5.61
Other State Revenue	69,570,140	23.58	5,895,526	9.26
Other Local Revenue	4,988,011	1.69	15,785	0.32
Total Revenues	\$ 295,095,153	100.00	\$ 14,196,503	5.05

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-2005 Actual	Percent Of Total	Increase (Decrease) from FY-2004	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	\$ 146,899,532	49.68	\$ (3,365,067)	(2.24)
Classified Salaries	45,524,132	15.40	(1,061,522)	(2.28)
Employee Benefits	62,143,004	21.01	6,165,529	11.01
Books and Supplies	13,978,566	4.73	(2,546,713)	(15.41)
Services, Other Operating Expenses	26,221,203	8.87	3,846,850	17.19
Capital Outlay	198,713	0.06	(333,133)	(62.64)
Other Outgo	1,798,783	0.61	(203,425)	(10.16)
Direct Support/Indirect Costs	(1,068,806)	(0.36)	(315,156)	(41.82)
Total Expenditures	\$ 295,695,127	100.00	\$ 2,187,363	0.75

The district's financial condition was severely tested during the 2005 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	
	2005	2004
Land	\$ 12,016,815	\$ 11,472,205
Improvement of Sites	1,602,000	1,713,292
Buildings	135,895,272	115,964,373
Equipment	4,200,205	4,561,637
Construction in Progress	97,251,048	61,339,305
Totals	\$ 250,965,340	\$ 195,050,812

The table above reflects capital assets at June 30, 2005 and 2004, 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 \$55.9 million during the year. Major capital asset additions completed or purchased during the year include the following:

✓ Construction	Kohl Elementary Relocation	\$ 6.8 million
✓ Construction	Warehouse Cold/Freezer Storage	\$ 1.6 million
✓ Modernization	A. A. Stagg High School	\$13.0 million
✓ Modernization	Washington Elementary School	\$ 1.9 million
✓ Modernization	August Elementary	\$ 1.0 million

A total of \$97.3 million has been expended on projects still in the construction phase. This includes construction work on Cesar Chavez High School, Maxine Hong-Kingston Elementary, Wilhelmina Henry Elementary, and Richard Pittman Elementary Schools, the modernization of 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	
	2005	2004
General Obligation Bonds	\$ 79,504,339	\$ 80,766,666
Certificates of Participation	26,025,399	26,544,981
Qualified Zone Academic Bonds Payable	6,635,000	6,635,000
Lighting Retrofit Payable	2,155,858	2,512,972
District-Wide Telephone System (VOIP)	1,295,714	1,788,200
State School Building Loan Payable	7,812	9,543
Compensated Absences	3,268,148	3,238,238
Other Postretirement Benefits	4,627,469	4,478,993
Claims Liability	13,290,628	9,830,451
Capital Leases	2,326,272	164,080
Totals	\$ 139,136,639	\$ 135,969,124

Outstanding debt increased by a net amount of \$3.2 million during the fiscal year. The increase primarily results from the \$2.3 million financing of six school buses and the cold/freezer storage unit constructed at the district's warehouse, and the adjustment of \$3.5 million for worker's compensation and property claims. \$2.7 million of long-term debt was reduced through the scheduled repayment of principal during the fiscal year.

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.

As will be covered in the "Economic Factors and Next Year's Budgets and Rates" section immediately following, a \$120 million general obligation bond was passed by district voters in November of 2005. The funds received from the issuance of this debt will be used to further address the school facility needs in the district.

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

Each January, the Governor of California announces the state budget plan for the year beginning July 1. On rare occasions, this plan is over-turned by the legislature, but usually the main concepts of the Governor's proposals are adopted.

California has been drowning in budget red ink for the past three years. Education and other public services have been cut to the bleeding edge and many are now at risk of being unable to continue services to the residents of the state. In 2004-05, in an effort of cooperation and support, the Education Coalition agreed to "suspend" \$2 billion in Proposition 98 funding for one year. The Governor agreed to restore this funding in 2005-06, but the adopted state budget failed to address these funds. Stockton Unified and all California school districts suffer as a result.

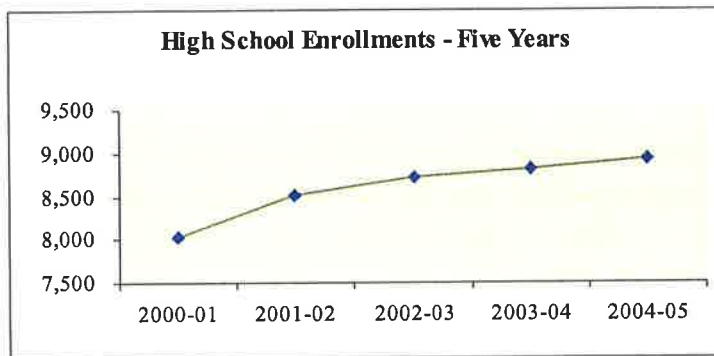
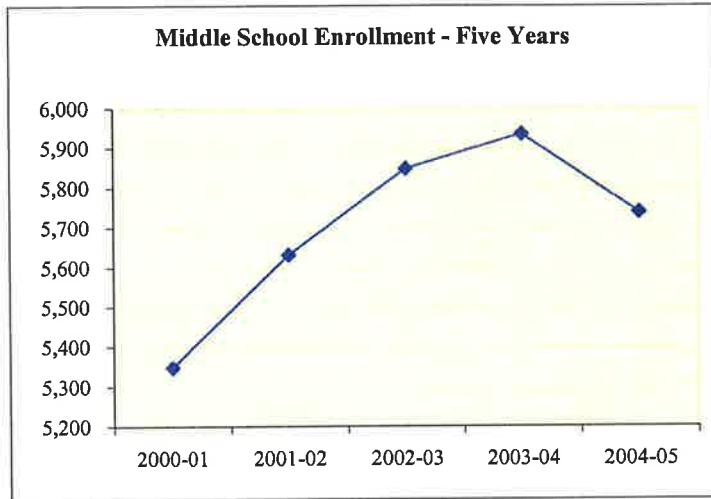
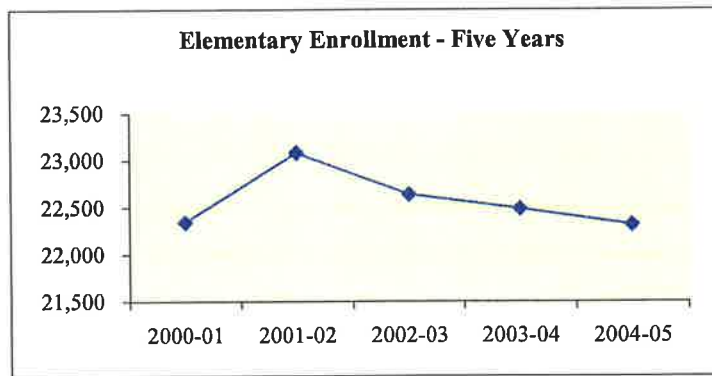
The 2005-06 Stockton Unified School District budget was developed with all components of the proposal presented by the Governor in January and any applicable May Revise adjustments. Additional budget assumptions included were:

- Class and step estimated at 1.5% of salaries
- Staffing in the amount of \$1.9 million for Cesar Chavez High School
- No enrollment growth or expansion of district sponsored charter schools
- Removal of all one time budgets including health benefit allowances as contractually agreed
- Staffing to district formula at all grade levels

Declining Enrollment

School districts receive the majority of their funding from student attendance. As students move out of the district, funding is reduced for each student that leaves. When more students leave than are newly received, it is known as declining enrollment. Declining enrollment can have a devastating impact on school district resources. Enrollment declines usually occur slowly over several years. In a large school district, the loss of 200 students annually is a significant revenue loss but does not trigger the need to reduce services until the third or fourth consecutive year of decline. By this time, the district is in serious financial trouble due to the continued annual loss of revenue.

Many urban districts in California are experiencing the effects of student declines due to urban economics and suburban sprawl. State officials need to review the funding formula to counteract the financial drain on districts large and small that have or may have fiscal problems as a result of student exodus. Prudent budgeting on the part of school districts noticing a decline is essential to avoiding fiscal disaster. As an example, SUSD has declined a few hundred students over the past two years. However, due to the distribution of the student declines, no services (i.e. transportation, special education, or curriculum) have been reduced. Only the number of classrooms operated has been affected by formula. The charts following display the trends in the district's enrollment over the past five years. These graphs are exclusive of special education, alternative education, and charter school enrollments.



Declining enrollment is usually a temporary phenomenon but can last for several years. For the duration, SUSD must be diligent and careful when increasing expenditures without either offsetting reductions or revenues.

Charter Schools

Charter schools, the political trend of the 90s and beyond, walk hand in hand with declining enrollment. Much of the enrollment loss in SUSD can be directly tied to charter schools within San Joaquin County. Charter school enrollments create a decline for slow or non-growth school districts. Charter schools are widely supported by politicians as the answer to schools of choice and student achievement. They will continue to wreak havoc on local schools both financially and educationally.

Although there is little, if any, empirical data to support the notion that charter schools can better educate children, there is nation-wide political support to expand and improve funding for charter schools. Given that charter schools are not subject to the Education Code, thereby relieving them of vast numbers of

regulations, could there be a political agenda not yet shared with California constituents? In any case, continued growth of local charter schools will erode San Joaquin County's school agencies, including SUSD.

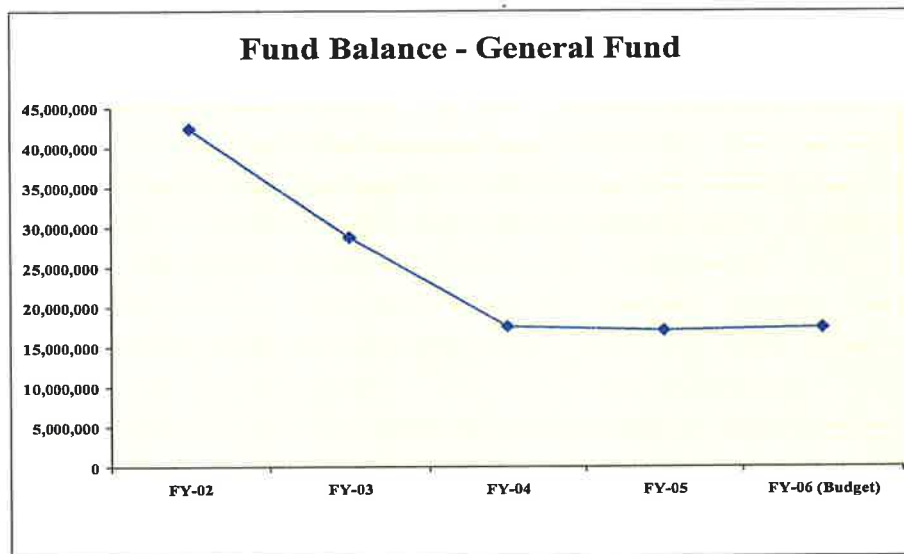
The table below illustrates the decline in funded students for SUSD over the next two years due to charter school enrollments.

	2004-05	2005-06 Est.	2006-07 Est.
Funded K-12 ADA	35,797.00	35,438.37	35,121.37
Charter Schools Revenue	\$ (2,281,896)	\$ (4,250,000)	\$ (4,962,025)
ADA loss to district from Charter Schools	430.22	804.22	907.22

Fund Balance

The fund balance of any school district always creates mystery, suspense, and allegations of skullduggery among those not understanding its sheer simplicity. The fund balance is the equivalent of fund equity balances of any corporation. There are restricted balances, required reserves, and inventories. In many ways, the fund balance and its history can define a school district's overall health. In a perfect budget world, revenues would always exceed expenses and fund balance increases would be sufficient annually to allow for additional spending. When the opposite occurs, expenditures exceeding revenues, fund balances decline and will all too soon be gone.

The past few years of economic drain have taken a toll on SUSD fund balances. The district made prudent decisions to combine use of fund balances and budget reductions to maintain stable program delivery to our students. Moving into the third year of state budget chaos, we must now be more diligent than ever in preserving required reserves.



Note: The estimate for FY 2005 and 2006 include any restricted balance estimates.

Infrastructure

Amid all the political and economic rubble of California's educational system, SUSD has managed to maintain existing schools in good repair and build new schools. Overwhelming community support with the passage of an \$80 million General Obligation Bond in November 2000 allowed the school district to upgrade existing schools and construct new facilities. Already in operation are the G. W. Bush Elementary and the new Kohl Elementary schools. SUSD opened Cesar Chavez High School, our first new high school in over 50 years, in August of 2005. Soon to follow are the Hong-Kingston, Pittman, and Henry schools. The new schools and the modernization of our older schools keep SUSD students in a well-maintained learning environment.

The district and SUSD community are working together to keep this trend alive in spite of funding challenges. The district asked the community in November of 2005 for support to continue the modernization of our existing schools, build additional new schools, and restructure our existing middle schools for a K-8 conversion. The community responded by passing Measure C, a \$120 million bond issue. Matching funds from the state should more than double this amount, allowing the district to move ahead in meeting our infrastructure needs.

Reconfiguration

In spite of the many positive educational activities, SUSD finds itself behind in meeting the state and federal required goals for student achievement. This, unfortunately, is a challenge faced by most school districts statewide. Language barriers, socio-economic factors, and regulations too often legislated in a “one size fits all” pattern have left many students in our district and our state categorized as “failing.” SUSD finds itself now in a position where change is a necessity, not a luxury. In order to provide smaller learning environments and relief from the large middle school populations, a proposal has been set forth to convert the district to a full K-8 elementary configuration. This conversion will occur in three phases:

Fiscal Year	Action to be Taken
2005-06	Targeted schools receive additional resources
2006-07	All elementary and middle schools convert to K-7 with 8 th grade attending in ½ of each middle school converted
2007-08	All elementary and middle schools are K-8 with new magnet schools at each converted middle school

The passage of the school bond will allow for the upgrades necessary. All elementary school boundaries will be re-aligned to accommodate the new configuration.

Outlook

School finance and budgeting becomes increasingly more complex as the political and economic environment dictate local priorities. The 2005-06 budget was developed to meet as many needs and challenges as possible within the limited resources available. Although the SUSD school board will face tough budget battles in the days to come, our students depend on our diligence and dedication to ensure their future success.

Contacting the District’s Financial Management

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

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 62,714,257
Restricted cash and equivalents	31,665,293
Receivables	25,325,059
Inventories	1,612,811
Prepaid expenditures	1,601,474
Capital assets:	
Land	12,016,815
Improvements of Sites	4,142,739
Buildings	220,241,728
Machinery and equipment	10,302,180
Construction in progress	97,251,048
Less: accumulated depreciation	<u>(92,989,170)</u>
Total assets	<u>373,884,234</u>
LIABILITIES	
Accounts payable	25,485,427
Deferred revenues	14,636,011
Long-term liabilities, due within one year:	
Debt	3,986,042
Compensated absences	326,815
Postemployment benefits	925,494
Claims and judgments	4,385,907
Long term liabilities, due in more than one year:	
Debt	113,964,352
Compensated absences	2,941,333
Postemployment benefits	3,701,975
Claims and judgments	<u>8,904,721</u>
Total liabilities	<u>179,258,077</u>
NET ASSETS	
Invested in capital assets, net of related debt	164,680,238
Restricted for:	
Capital projects	9,143,090
Debt service	5,774,518
Educational programs	9,515,046
Other purposes (expendable)	742,704
Unrestricted	4,770,561
Total net assets	<u>\$ 194,626,157</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

Functions	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Instruction	\$ 197,358,244	\$ 1,615,321	\$ 70,372,302	\$ 9,747,688	\$ (115,622,933)
Instruction-related services:					
Supervision of instruction	15,864,776	20,857	9,081,932		(6,761,987)
Instructional library, media and technology	1,530,166	233	304,846		(1,225,087)
School site administration	21,914,696	153,631	2,227,041		(19,534,024)
Pupil services:			6,330,644		6,330,644
Pupil transportation	9,239,493	8,450	8,396,006		(835,037)
Food services	11,649,963	1,568,677	6,786,217		(3,295,069)
Other pupil services	16,802,353	17,564			(16,784,789)
Ancillary services	481,861		56,304		(425,557)
Enterprise activities	1,557				(1,557)
General administration:					
Data processing services	2,518,978				(2,518,978)
Other general administration	14,389,133	193,803	4,231,367		(9,963,963)
Plant services	30,370,645	26,715	2,568,102		(27,775,828)
Depreciation (unallocated)	403,220				(403,220)
Interest on debt	4,835,628				(4,835,628)
Other outgo	802,716	51,209	367,256		(384,251)
Totals	\$ 328,163,429	\$ 3,656,460	\$ 110,722,017	\$ 9,747,688	(204,037,264)

General revenues:

Taxes and subventions:	
Taxes levied for general purposes	37,663,376
Taxes levied for debt service	5,374,575
Taxes levied for other specific purposes	3,276,493
Federal and state aid not restricted to specific purposes	163,076,490
Developer fees	9,129,445
Interest and investment earnings	2,103,971
Interagency revenues	722,760
Miscellaneous revenue	896,455
Total general revenues	222,243,565
Increase in net assets	18,206,301
Net assets - beginning	176,419,856
Net assets - ending	\$ 194,626,157

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	Capital Facilities		Special Reserve		Other		Total	
	General Fund	Fund	Fund for Capital	Outlay	Governmental	Funds	Governmental	Funds
ASSETS								
Cash and equivalents	\$ 16,901,293	\$ 10,974,618	\$ 5,538,999	\$ 17,743,145	\$	\$ 51,158,055		
Restricted cash and equivalents			31,394,254	271,039		31,665,293		
Receivables	22,220,653	78,351	260,794	2,686,354		25,246,152		
Due from other funds	2,083,798	7,337	302,252	56,986		2,450,373		
Inventories	1,053,969			558,842		1,612,811		
Prepaid expenditures	96,816					96,816		
Total assets	\$ 42,356,529	\$ 11,060,306	\$ 37,496,299	\$ 21,316,366	\$	\$ 112,229,500		
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ 9,521,695	\$ 1,457,043	\$ 10,634,217	\$ 1,056,880	\$	\$ 22,669,835		
Due to other funds	362,578	71,817	407,376	1,608,145		2,449,916		
Deferred revenue	15,423,215			909,772		16,332,987		
Total liabilities	25,307,488	1,528,860	11,041,593	3,574,797		41,452,738		
Fund balances:								
Reserved for:								
Revolving cash	70,000					70,000		
Inventories	1,053,969			558,842		1,612,811		
Prepaid expenditures	96,816					96,816		
Debt service				7,949,918		7,949,918		
Legally restricted programs	9,515,046							
Unreserved, reported in:								
General fund	6,313,210					6,313,210		
Special revenue funds				4,410,577		4,410,577		
Capital projects funds		9,531,446	26,454,706	4,822,232		40,808,384		
Total fund balances	17,049,041	9,531,446	26,454,706	17,741,569		70,776,762		
Total liabilities and fund balances	\$ 42,356,529	\$ 11,060,306	\$ 37,496,299	\$ 21,316,366	\$	\$ 112,229,500		

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, 2005

Total fund balance, governmental funds	\$ 70,776,762
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 \$343,954,510 and accumulated depreciation is \$92,989,170.	250,965,340
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.	1,696,974
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:	1,494,077
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 unmatured interest owing at the end of the period was:	(2,175,581)
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.	(125,846,011)
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>(2,285,404)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 194,626,157</u>

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005**

	General Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay	Other Governmental Funds	Total Governmental Funds
REVENUES					
State apportionment	\$ 141,549,700			\$ 5,175,705	\$146,725,405
Local sources	38,605,895				38,605,895
Total revenue limit	<u>180,155,595</u>			5,175,705	185,331,300
Federal revenues	40,381,407			9,168,931	49,550,338
Other state revenues	69,570,140			15,407,865	84,978,005
Other local revenues	4,988,011	\$ 9,314,229	\$ 749,912	11,760,343	26,812,495
Total revenues	<u>295,095,153</u>	<u>9,314,229</u>	<u>749,912</u>	<u>41,512,844</u>	<u>346,672,138</u>
EXPENDITURES					
Current:					
Instruction	188,329,118			6,157,219	194,486,337
Instruction-related services:					
Supervision of instruction	15,464,556			320,457	15,785,013
Instructional library, media and tech	1,499,170			12,965	1,512,135
School site administration	21,021,682			873,799	21,895,481
Pupil services:					
Pupil transportation	9,100,998				9,100,998
Food services	45,554			11,645,781	11,691,335
Other pupil services	16,605,481			420,541	17,026,022
Ancillary services	481,861				481,861
Enterprise activities				693	693
General administration:					
Data processing services	2,535,486				2,535,486
Other general administration	9,536,959	134,769		1,068,807	10,740,535
Plant services	28,243,157	72,000	231,230	2,013,182	30,559,569
Facilities rents and leases	1,032,295	3,980,011			5,012,306
Debt Service:					
Principal	849,378	494,896	24,583	1,212,097	2,580,954
Interest and other charges	131,505	107,104	341	4,597,675	4,836,625
Capital outlay			53,236,138	3,829,732	57,065,870
Transfers to other agencies	817,927		1,900	309	820,136
Total expenditures	<u>295,695,127</u>	<u>4,788,780</u>	<u>53,494,192</u>	<u>32,153,257</u>	<u>386,131,356</u>
Excess (deficiency) of revenues over expenditures	<u>(599,974)</u>	<u>4,525,449</u>	<u>(52,744,280)</u>	<u>9,359,587</u>	<u>(39,459,218)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers out	(968,000)	(810,304)	(886,304)	(51,681,551)	(54,346,159)
Other sources	178,353			2,068,448	2,246,801
Interfund transfers in	865,451		52,026,404	1,454,304	54,346,159
Total other financing sources and uses	<u>75,804</u>	<u>(810,304)</u>	<u>51,140,100</u>	<u>(48,158,799)</u>	<u>2,246,801</u>
Net increase (decrease) in fund balances	<u>(524,170)</u>	<u>3,715,145</u>	<u>(1,604,180)</u>	<u>(38,799,212)</u>	<u>(37,212,417)</u>
Fund balances - beginning	17,573,211	5,816,301	28,058,886	56,540,781	107,989,179
Fund balances - ending	<u>\$ 17,049,041</u>	<u>\$ 9,531,446</u>	<u>\$26,454,706</u>	<u>\$ 17,741,569</u>	<u>\$ 70,776,762</u>

STOCKTON UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds:	\$ (37,212,417)
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:	55,914,528
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:	2,580,953
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:	(2,242,000)
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:	20,771
In governmental funds, retiree benefit costs are recognized when employer contributions are made. In the Statement of Activities, costs are measured and recognized in relation to the annual required contribution. The change in the retiree benefits reflects an increase in the liability of \$148,476.	(148,476)
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:	(307,208)
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:	(46,052)
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:	(29,911)
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:	43,700
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:	(367,587)
Change in net assets of governmental activities	<u>\$ 18,206,301</u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
ASSETS	
Current assets:	
Cash and equivalents	\$ 11,556,202
Due from other funds	3,376
Receivables	78,907
Prepaid expenses	10,582
Total current assets	<u>11,649,067</u>
LIABILITIES	
Current liabilities:	
Accounts payable	640,010
Due to other funds	3,833
Claims and judgements	4,385,907
Total current liabilities	<u>5,029,750</u>
Long-term liabilities:	
Claims and judgments	8,904,721
Total liabilities	<u>13,934,471</u>
NET ASSETS	
Unrestricted (Deficit)	(2,285,404)
Total net assets	<u>\$ (2,285,404)</u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
OPERATING REVENUES	
Charges for services	<u>\$ 13,600,025</u>
OPERATING EXPENSES	
Claims and administration	5,812,733
Services and operating expenditures	<u>8,326,246</u>
Total operating expenses	<u>14,138,979</u>
Operating loss	<u>(538,954)</u>
NON-OPERATING REVENUES	
Interest and investment revenue	<u>171,367</u>
Decrease in net assets	(367,587)
Net assets - beginning	<u>(1,917,817)</u>
Net assets - ending	<u><u>\$ (2,285,404)</u></u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2005

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 13,577,393
Payments to suppliers	(8,171,568)
Payments to/from other funds	744,748
Claims paid	<u>(2,352,556)</u>
Net cash provided by operating activities	<u>3,798,017</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>171,367</u>
Net increase in cash and equivalents	3,969,384
Balances – beginning of year	<u>7,586,818</u>
Balances – end of year	<u>\$ 11,556,202</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (538,954)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Receivables	(22,632)
Due from other funds	742,988
Prepaid expenses	78,790
Accounts payable	75,888
Due to other funds	1,760
Claims and judgments	<u>3,460,177</u>
Net cash provided by operating activities	<u>\$ 3,798,017</u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and equivalents	\$ 4,921,469
Receivables	44,479
Total assets	<u>\$ 4,965,948</u>
 LIABILITIES	
Accounts payable	\$ 3,197,965
Due to student groups and other agencies	1,767,983
Total liabilities	<u>\$ 4,965,948</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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 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, 2005

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, 2005

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, 2005

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 **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 **Special Reserve Fund** is used to account for capital projects.

Non-Major Governmental Funds

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

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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 **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 **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, 2005

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, 2005

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.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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.

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, and (3) 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).

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of Net Assets:		
Cash and equivalents	\$	94,379,550
Fiduciary funds:		
Cash and equivalents		<u>4,921,469</u>
Total cash, equivalents, investments	\$	<u>99,301,019</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash with financial institutions	\$	1,966,307
Cash and investments with investment pools		<u>97,334,712</u>
Total cash and investments	\$	<u>99,301,019</u>

Investments Authorized by the Entity's Investment Policy

Cash in County Treasury

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

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

The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq, and is restricted by Government Code Section 53635, pursuant to Section 53601. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the District by the California Government Code Section 53601. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
Joint Powers Agreements	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None

Derivative Investments

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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code of the District's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

		<u>Weighted Average Maturity (in years)</u>
San Joaquin County Treasury Investment Pool	\$ 95,982,932	.17
Local Agency Investment Fund (LAIF)	<u>1,351,780</u>	N/A
Total	<u>\$ 97,334,712</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury Investment Pool and LAIF do not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Education Code. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Education Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amounts deposited by the public agencies.

The District's deposits with financial institutions in excess of federal depository insurance limits held in uncollateralized accounts were \$768,943.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2005:

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve for Capital Outlay</u>	<u>Other Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Funds</u>
Federal government	\$ 4,464,786			\$ 1,621,483		\$ 6,086,269
State government	8,980,308			660,638		9,640,946
Local government	8,457,765		\$ 6,133	324,923	\$ 5,546	8,794,367
Interest	317,794	\$ 78,351	254,661	79,310	73,361	803,477
Totals	\$ 22,220,653	\$ 78,351	\$ 260,794	\$ 2,686,354	\$ 78,907	\$ 25,325,059

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 \$915,235. The District will collect this receivable over the next six 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.

Individual interfund receivables and payables as of June 30, 2005 were as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>					
	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve for Capital Outlay</u>	<u>Other Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total Governmental Funds</u>
General Fund			\$ 302,228	\$ 56,974	\$ 3,376	\$ 362,578
Capital Facilities Fund	\$ 71,817					71,817
Special Reserve Fund for Capital Outlay	400,039	\$ 7,337				407,376
Other Governmental Funds	1,608,109		24	12		1,608,145
Internal Service Funds	3,833					3,833
Totals	\$ 2,083,798	\$ 7,337	\$ 302,252	\$ 56,986	\$ 3,376	\$ 2,453,749

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

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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, 2005 were as follows:

Transfer In	Transfer Out				Totals
	General Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay	Other Governmental Funds	
General Fund		\$ 65,000	\$ 400,000	\$ 400,451	\$ 865,451
Special Reserve Fund for Capital Outlay		745,304		51,281,100	52,026,404
Other Governmental Funds	\$ 968,000		486,304		1,454,304
Totals	\$ 968,000	\$ 810,304	\$ 886,304	\$ 51,681,551	\$ 54,346,159

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 11,472,205	\$ 544,610		\$ 12,016,815
Construction in progress	61,339,305	61,821,112	\$ (25,909,369)	97,251,048
Total capital assets, not being depreciated	<u>72,811,510</u>	<u>62,365,722</u>	<u>(25,909,369)</u>	<u>109,267,863</u>
Capital assets, being depreciated:				
Improvement of sites	4,142,739			4,142,739
Buildings	195,360,104	25,011,309	(129,685)	220,241,728
Machinery and equipment	10,065,730	353,450	(117,000)	10,302,180
Total capital assets, being depreciated	<u>209,568,573</u>	<u>25,364,759</u>	<u>(246,685)</u>	<u>234,686,647</u>
Less accumulated depreciation for:				
Improvement of sites	(2,429,447)	(111,292)		(2,540,739)
Buildings	(79,395,731)	(5,080,410)	129,685	(84,346,456)
Machinery and equipment	(5,504,093)	(714,882)	117,000	(6,101,975)
Total accumulated depreciation	<u>(87,329,271)</u>	<u>(5,906,584)</u>	<u>246,685</u>	<u>(92,989,170)</u>
Total capital assets, being depreciated, net	<u>122,239,302</u>	<u>19,458,175</u>	<u>-</u>	<u>141,697,477</u>
Governmental activities capital assets, net	<u>\$ 195,050,812</u>	<u>\$ 81,823,897</u>	<u>\$ (25,909,369)</u>	<u>\$ 250,965,340</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

For the year ended June 30, 2005, depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 5,175,530
Pupil transportation	151,414
Food services	22,849
Plant services	32,709
Other general administration	120,862
Depreciation (unallocated portion)	<u>403,220</u>
Total depreciation expense	\$ <u>5,906,584</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>
2006	\$ 581,000	\$ 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	710,000	937,819	1,647,819
2011-2015	4,010,000	4,120,494	8,130,494
2016-2020	5,045,000	3,052,491	8,097,491
2021-2025	6,465,000	1,630,375	8,095,375
2026-2027	<u>3,080,000</u>	<u>159,900</u>	<u>3,239,900</u>
Subtotal	21,811,000	14,005,853	35,816,853
Plus: Unamortized Premium	<u>222,405</u>		<u>222,405</u>
Totals	\$ <u>22,033,405</u>	\$ <u>14,005,853</u>	\$ <u>36,039,258</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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>
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	850,000	1,135,064	1,985,064
2011-2015	4,800,000	5,169,799	9,969,799
2016-2020	5,885,000	4,019,600	9,904,600
2021-2025	7,370,000	2,414,437	9,784,437
2026-2028	<u>5,335,000</u>	<u>542,000</u>	<u>5,877,000</u>
Subtotal	27,310,000	18,070,606	45,380,606
Plus: Unamortized Premium	<u>447,348</u>		<u>447,348</u>
Totals	<u>\$ 27,757,348</u>	<u>\$ 18,070,606</u>	<u>\$ 45,827,954</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>
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	865,000	1,135,134	2,000,134
2011-2015	4,835,000	5,181,631	10,016,631
2016-2020	5,870,000	4,206,892	10,076,892
2021-2025	7,315,000	2,775,689	10,090,689
2026-2029	<u>7,205,000</u>	<u>872,525</u>	<u>8,077,525</u>
Subtotal	29,200,000	19,076,707	48,276,707
Plus: Unamortized Premium	<u>513,586</u>		<u>513,586</u>
Totals	<u>\$ 29,713,586</u>	<u>\$ 19,076,707</u>	<u>\$ 48,790,293</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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, 2005, the principal balance outstanding was \$14,050,000.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	640,000	634,625	1,274,625
2011-2015	3,770,000	2,630,505	6,400,505
2016-2020	4,975,000	1,486,150	6,461,150
2021-2022	2,420,000	196,994	2,616,994
Totals	<u>\$ 14,050,000</u>	<u>\$ 7,773,238</u>	<u>\$ 21,823,238</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, 2005, the principal balance outstanding was \$11,975,399.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	191,268	38,732	230,000
2011-2015	1,192,339	527,661	1,720,000
2016-2020	1,967,087	1,877,913	3,845,000
2021-2025	2,948,973	4,906,027	7,855,000
2026-2030	3,014,979	7,860,021	10,875,000
2031-2034	2,267,937	8,387,063	10,655,000
Totals	<u>\$ 11,975,399</u>	<u>\$ 23,639,601</u>	<u>\$ 35,615,000</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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 Stockton Center, STAGG, Edison and Franklin High Schools to modernize the business and automotive programs and sell the improvements to the District upon specified terms and conditions. Under the terms of the contract, the District has deposited \$2,729,105 with the Bank as collateral for 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>
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	422,832	16,885	439,717
2011	177,572	4,550	182,122
Totals	<u>\$ 2,155,858</u>	<u>\$ 224,849</u>	<u>\$ 2,380,707</u>

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

State School Building Loans Payable

State school building loan activity for the year ended June 30, 2005 was as follows:

<u>Balance</u> <u>July 1, 2004</u>	<u>Interest</u> <u>Charge</u>	<u>Repayment</u> <u>Current</u> <u>Year</u>	<u>Outstanding</u> <u>June 30, 2005</u>
\$ <u>9,543</u>	\$ _____	\$ <u>1,731</u>	\$ <u>7,812</u>

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

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

Capital Leases

The District leases telephone, duplicating, athletic equipment, school buses, and a warehouse freezer under an agreement that provides for title to pass upon expiration of the lease period.

Future minimum lease payments as of June 30, 2005 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease</u> <u>Payments</u>
2006	\$ 978,840
2007	928,385
2008	647,175
2009	371,884
2010	371,884
2011-2012	<u>743,768</u>
Total	4,041,936
Less Amount Representing Interest	<u>(419,950)</u>
Present Value of Net Minimum Lease Payments	\$ <u>3,621,986</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, 2005

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 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	\$ 22,563,995		\$ 530,590	\$ 22,033,405	\$ 591,591
General Obligation Bonds - 2003	28,467,230		709,882	27,757,348	739,882
General Obligation Bonds - 2004	29,735,441		21,855	29,713,586	746,855
Certificates of Participation - 1997	14,545,000		495,000	14,050,000	520,000
Certificates of Participation - 2004	11,999,981		24,582	11,975,399	38,443
Qualified Zone Academy Bonds	1,635,000			1,635,000	
Qualified Zone Academy Bonds	5,000,000			5,000,000	
CA Energy Commission Loan	2,512,972		357,114	2,155,858	369,385
State School Building Loans	9,543		1,731	7,812	1,046
Post-Employment Benefits (Note 12)	4,478,993	\$ 148,476		4,627,469	925,494
Claims Liability (Note 8)	9,830,451	3,460,177		13,290,628	4,385,907
Capital Leases	1,952,280	2,242,000	572,294	3,621,986	978,840
Compensated Absences	3,238,238	29,910		3,268,148	326,815
Total	\$ 135,969,124	\$ 5,880,563	\$ 2,713,048	\$ 139,136,639	\$ 9,624,258

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 \$25,000 per incident. The District also maintains worker's compensation insurance with a commercial carrier for claims up to \$1,000,000 with a deductible of \$750,000 per incident. The District is fully self-insured for dental care for all employees, and has a self-insured worker's compensation program. All claims liabilities are administered by outside parties and the Self-Insurance Fund accounts for and liquidates these insurance activities.

During the year ended June 30, 2005, the District participated in two joint powers agreements (JPAs) for purposes of pooling of risk related to property and liability. See "Joint Ventures" footnote for nature of participation.

The District has accrued a liability of \$13,290,628 at June 30, 2005 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 an actuarially determined estimate. Discount rates ranged from 81.3 to 83.8 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 \$4,385,907 of these liabilities will be incurred in the 2005-06 fiscal year.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

Changes in claims liability for the years ended June 30, 2005 and 2004 are as follows:

	<u>Liability Beginning of Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Liability End of Year</u>
2004-2005	\$ 9,830,451	\$ 5,812,733	\$ (2,352,556)	\$ 13,290,628
2003-2004	\$ 6,159,511	\$ 5,455,817	\$ (1,784,877)	\$ 9,830,451

9. JOINT VENTURES (Joint Powers Agreements)

The District participates in two 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, 2004, most current information available, is as follows:

Total Assets	\$ 30,787,480
Total Liabilities	\$ 28,322,961
Retained Earnings	<u>2,464,519</u>
	\$ 30,787,480
Total Revenues	\$ 25,505,267
Total Expenses	<u>31,311,801</u>
Net Increase in Retained Earnings	\$ (5,806,534)

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. 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 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, 2005

Condensed audited financial information for SELF for the year ended June 30, 2004, most current information available rounded (in thousands), is as follows:

Total Assets	\$ <u>173,648</u>
Total Liabilities	\$ 147,852
Retained Earnings	<u>25,796</u>
	\$ <u>173,648</u>
Total Revenues	\$ 75,906
Total Expenses	<u>81,308</u>
Net Increase in Retained Earnings	\$ <u>(5,402)</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 \$5,709,131 at June 30, 2005. 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, 2005

California Public Employees' Retirement System (CalPERS):

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 9.952% of annual payroll. The contribution requirements of the plan members are established by state statute. The District contributions to CalPERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$4,236,003, \$4,437,707, and \$1,499,097, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement Systems (STRS):

Plan Description

The District contributes to State Teachers' Retirement Systems (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 2004-2005 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, 2005, 2004, and 2003 were \$12,113,379, \$12,350,585, and \$12,220,313, respectively, and equal 100% of the required contributions for each year.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

12. RETIREE HEALTH BENEFITS

In addition to pension benefits described in Note 11, the District provides postretirement health care benefits to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. As of June 30, 2005, 272 retirees met these eligibility requirements. Benefits are provided for retirees age 55 to 65. The District pays up to \$874.95 per month for health benefits of retirees on a pay-as-you-go basis. During the year ended June 30, 2005, expenditures of \$3,287,689 were recognized for retiree health care benefits. The liability at June 30, 2005 is \$4,627,469, and is based on the current participants' remaining coverage periods.

13. ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consisted of state general fund contributions to STRS in the amount of \$6,687,351 (4.517% of salaries subject to STRS).

14. DEFICIT NET ASSETS

The Self Insurance internal service fund had a deficit net asset balance of \$2,960,101 as of June 30, 2005. The District plans to reduce this deficit through future charges and changes in the actuarially determined claims liabilities.

15. SUBSEQUENT EVENT

In November of 2005, the voters authorized Measure C, General Obligation Bonds, in the amount of \$120,000,000, for capital facilities projects such as constructing new schools, and modernizing aging campuses.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP</u> <u>Basis</u>	<u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
REVENUES				
State apportionment	\$ 132,954,538	\$ 133,999,003	\$ 141,549,700	\$ 7,550,697
Local sources	<u>47,972,504</u>	<u>47,972,534</u>	<u>38,605,895</u>	<u>(9,366,639)</u>
Total revenue limit	180,927,042	181,971,537	180,155,595	(1,815,942)
Federal revenues	47,986,977	54,609,506	40,381,407	(14,228,099)
Other state revenues	72,322,420	77,501,382	69,570,140	(7,931,242)
Other local revenues	<u>8,557,791</u>	<u>5,615,371</u>	<u>4,988,011</u>	<u>(627,360)</u>
Total revenues	<u>309,794,230</u>	<u>319,697,796</u>	<u>295,095,153</u>	<u>(24,602,643)</u>
EXPENDITURES				
Certificated personnel salaries	146,088,716	149,156,008	146,899,532	2,256,476
Classified personnel salaries	45,857,948	47,141,178	45,524,132	1,617,046
Employee benefits	58,677,417	63,373,756	62,143,004	1,230,752
Books and supplies	30,718,737	38,535,541	13,978,566	24,556,975
Services and other operating expenditures	25,424,495	30,207,608	26,221,203	3,986,405
Capital outlay	841,044	500,540	198,713	301,827
Other outgo	769,573	769,573	817,900	(48,327)
Allocation of indirect costs	(689,395)	(761,109)	(1,068,806)	307,697
Debt service	<u>979,599</u>	<u>979,599</u>	<u>980,883</u>	<u>(1,284)</u>
Total expenditures	<u>308,668,134</u>	<u>329,902,694</u>	<u>295,695,127</u>	<u>34,207,567</u>
Excess of expenditures over revenues	<u>1,126,096</u>	<u>(10,204,898)</u>	<u>(599,974)</u>	<u>9,604,924</u>
OTHER FINANCING SOURCES				
Interfund transfers in	500,000	965,000	865,451	(99,549)
Other sources			178,353	178,353
Interfund transfers out	<u>(968,000)</u>	<u>(1,261,000)</u>	<u>(968,000)</u>	<u>293,000</u>
Total other financing sources	<u>(468,000)</u>	<u>(296,000)</u>	<u>75,804</u>	<u>371,804</u>
Net increase in fund balance	658,096	(10,500,898)	(524,170)	9,976,728
Fund balance – beginning	<u>18,319,574</u>	<u>17,573,211</u>	<u>17,573,211</u>	
Fund balance – ending	<u>\$ 18,977,670</u>	<u>\$ 7,072,313</u>	<u>\$ 17,049,041</u>	<u>\$ 9,976,728</u>

SUPPLEMENTARY INFORMATION SECTION

STOCKTON UNIFIED SCHOOL DISTRICT

JUNE 30, 2005

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>
Edward R. Garcia	President	2008
Anthony R. Silva	Vice-President	2008
Louis Gonzales	Member	2006
Sarah Bowden	Member	2008
Vince Holladay	Member	2006
Katrina L. Rios	Member	2006
Glen A. Dolberg, Ph.D.	Member	2006

ADMINISTRATION

George E. Ridler
Superintendent/Secretary

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, 2005

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	2,878	2,862
Grades 1 through 3	9,143	9,101
Grades 4 through 6	8,906	8,842
Grades 7 and 8	5,205	5,164
Special Education	654	660
Opportunity Schools	37	38
Home and Hospital	11	11
Community Day School	33	32
Extended Year ADA	54	54
Elementary Totals	<u>26,921</u>	<u>26,764</u>
High School:		
Grades 9 through 12, Regular Classes	7,812	7,644
Special Education	424	433
Continuation Education	383	368
Opportunity Schools	102	110
Home and Hospital	24	26
Community Day School	55	50
Extended Year ADA	35	35
High School Totals	<u>8,835</u>	<u>8,666</u>
Classes for Adults:		
Concurrently Enrolled	76	73
Not Concurrently Enrolled	1,456	1,378
ADA Totals	<u>37,288</u>	<u>36,881</u>
		<u>Hours of Attendance</u>
Supplemental Instruction:		
Elementary		236,785
Secondary		348,079

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

YEAR ENDED JUNE 30, 2005

<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, 2005

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2004-2005 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	50,400	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, 2005

GENERAL FUND

	June Adopted Budget 2006	2005	2004	2003
Revenues and other financial sources	\$ 297,613,031	\$ 296,138,957	\$ 289,098,650	\$ 279,437,492
Expenditures	295,876,757	295,695,127	293,507,763	289,479,776
Other uses and transfers out	1,299,783	968,000	6,767,581	3,564,145
Total outgo	297,176,540	296,663,127	300,275,344	293,043,921
Change in fund balance	436,491	(524,170)	(11,176,694)	(13,606,429)
Ending fund balance	\$ 17,485,532	\$ 17,049,041	\$ 17,573,211	\$ 28,749,904
Available reserves ¹	\$ 6,693,344	\$ 6,313,210	\$ 6,229,603	\$ 5,860,878
Designated for economic uncertainties	\$ 5,943,531	\$ 5,912,341	\$ 6,229,603	\$ 5,860,878
Undesignated fund balance	\$ 749,813	\$ 400,869	\$ 0	\$ 0
Available reserves as a percentage of total outgo	2.25%	2.12%	2.07%	2.00%
Total long-term debt	\$ 129,512,381	\$ 139,136,639	\$ 135,969,124	\$ 86,933,533
Average daily attendance at P-2 ²	35,692	35,756	35,997	35,922

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 \$11,700,863 over the past two years. The fiscal year 2005-06 budget projects an increase of \$436,491(2.5%). 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 each of the past three years, but does not anticipate incurring an operating deficit during the 2005-2006 fiscal year. Total long-term debt has increased by \$52,203,106 over the past two years.

Average daily attendance has decreased by 166 over the past two years, and a decrease of 64 is anticipated during fiscal year 2005-06.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

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	\$ 23,318,949
Transition to Teaching Program	84.350A		259,965
Professional Development Music Education	84.351C	None	74,450
Gear It Up	84.334	10088	872,440
Improving School Library	84.364	None	42,639
Title VI – Innovative Education Program Strategies	84.298	13340	216,947
Elementary Counseling Demo Program	84.215E	None	362,285
High School Reform	84.215	13073	1,480
Title X – McKinney-Vento Homeless Assistance	84.276	24166	146,819
Indian Education	84.060	10011	364,868
Charter School Grant	84.282	03150	38,768
JROTC	84.none	None	126,739
Title II, NCLB, Part A, Improving Teacher Quality	84.367	14341	2,613,168
Title III – Immigrant Education Program	84.365	None	35,762
Title III – Limited English Proficiency	84.365	18004	553,516
Subtotal 84.365			<u>589,278</u>
Title II, Part B, CAMSP	84.318	14512	482,727
Title II, Part D, Technology	84.318	14334	502,034
Enhancing Education Through Technology	84.318	13285	150,326
Subtotal 84.318			<u>1,135,087</u>
Vocational Education Title II – Part C, Section 132	84.048	03573	460,675
Title IV – Safe and Drug-Free Schools	84.186	03453	565,059
Title IV – SDFS – Program Development	84.186	03452	358,927
Subtotal 84.186			<u>923,986</u>
Adult Education: Priority 1-3	84.002	13973	192,650
Adult Education: Priority 4, Family Literacy	84.002	13977	40,904
Adult Education: Priority 5, Adult Secondary Education	84.002	13978	3,950
Adult Education: English Literacy and Citizenship	84.002	14109	315,116
Subtotal 84.002			<u>552,620</u>
IDEA Part B (Special Education Cluster):			
Local Assistance	84.027	13379	5,785,911
Preschool Local Entitlement	84.027	13682	205,728
Federal Preschool	84.173	13430	331,473
Local Staff Development	84.027	13613	15,444
Pre-School Staff Development	84.173	13431	1,673
Early Intervention	84.181	13761	67,389
Workability I	84.027	13705	21,282
Subtotal Special Education Cluster			<u>6,428,900</u>
Direct:			
Twenty-first Century Community Learning Center	84.287	None	<u>1,556,810</u>
Total U.S. Department of Education			<u>40,086,873</u>

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

U.S. Department of Health and Human Services:			
Passed Through California Department of Health Services:			
Medi-Cal Option Billing	93.778	10013	817,602
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care and Adult	10.558	03529	14,620
National School Lunch	10.555	13390	<u>8,582,179</u>
Total U.S. Department of Agriculture			<u>8,596,799</u>
Total Expenditures of Federal Awards			<u>\$ 49,501,274</u>

NOTE 1 - Non-cash assistance in the form of donated commodities was received from the California Department of Education as a pass-through grant from the U.S. Department of Agriculture. The total market value of the commodities received during 2004-05 was \$420,848.

STOCKTON UNIFIED SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2005

	<u>Special Reserve Fund for Capital Outlay</u>
June 30, 2005 Annual Financial and Budget Report Fund Balance	\$ 21,889,998
Audit adjustments: Decrease in Capital Outlay Expenditures	<u>4,514,708</u>
June 30, 2005 Audited Financial Statement Fund Balance	\$ <u>26,454,706</u>
	<u>Self-Insurance Fund</u>
June 30, 2005 Annual Financial and Budget Report Fund Balance	\$ 500,076
Audit adjustments: Increase in Claims Liabilities	<u>(3,460,177)</u>
June 30, 2005 Audited Financial Statement Fund Balance	\$ <u>(2,960,101)</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, 2005

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, 2005.

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, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 5, 2006. 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 05-1 through 05-4.

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 material weaknesses.

2880 Gateway Oaks Dr. • Suite 100 • Sacramento, CA 95833
101 Parkshore Dr. • Suite 100 • Folsom, CA 95630

Phone 916.646.6464 • Fax 916.641.2727
<http://www.gilbertcpa.com>

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Findings and Recommendations Section as items 05-5 through 05-9.

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

January 5, 2006



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, 2005. 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, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying Findings and Recommendations Section as item 05-09.

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.

2880 Gateway Oaks Dr. • Suite 100 • Sacramento, CA 95833
101 Parkshore Dr. • Suite 100 • Folsom, CA 95630

Phone 916.646.6464 • Fax 916.641.2727
<http://www.gilbertcpa.com>

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.

January 5, 2006



Gilbert Associates, Inc.
CPAs and Advisors

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

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

We have audited the financial statements of the Stockton Unified School District (the District), as of and for the year ended June 30, 2005, and have issued our report thereon dated January 5, 2006. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2004-05*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Controller's Audit Guide	Procedures Performed
Attendance Reporting	8	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	No ⁽¹⁾
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers/Programs	6	Not Applicable
Instructional Time and Staff Development Reform Program	7	Yes
Instructional Time For:		Yes
School Districts	4	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	No ⁽¹⁾

2880 Gateway Oaks Dr. • Suite 100 • Sacramento, CA 95833
101 Parkshore Dr. • Suite 100 • Folsom, CA 95630

Phone 916.646.6464 • Fax 916.641.2727
<http://www.gilbertcpa.com>

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	Not Applicable
State Instructional Materials:		
General requirements	12	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
School Accountability Report Card	3	No ⁽²⁾
School Construction Fund:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Yes
Lottery Funds:		
Proposition 20	2	Yes
State Lottery Funds	2	Yes
California school age families education	3	Yes

⁽¹⁾ We did not perform testing for Independent Study and Community Day Schools because the ADA was under the level that requires testing.

⁽²⁾ School Accountability Report Card for 2004-05 had not been filed by the completion of audit fieldwork. Therefore, we were unable to perform the audit procedures.

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

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

January 5, 2006

FINDINGS AND RECOMMENDATIONS SECTION

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

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

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

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

Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I</u>
<u>84.367</u>	<u>Title II, NCLB, Part A, Improving Teacher Quality</u>
<u>84.287</u>	<u>21st Century Learning</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs: \$1,485,038

Auditee qualified as low-risk auditee? Yes X No

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROLS – REPORTABLE CONDITIONS

05-1. ASSOCIATED STUDENT BODY – CDDC #30000

Finding:

We found that at one school site Associated Student Body Funds financial reports are not prepared. Specifically, the school store does not prepare a profit and loss statement. Lack of financial reports and lack of formal internal management review threaten the integrity, accuracy, and reliability of the reporting system.

Recommendation:

To avoid potential conflict with interested parties and to ensure internal control over the accuracy and accountability of recording ASB transactions, the District should adopt a policy of established periodic generation, distribution, and review of the financial reports.

District Response:

School sites will receive instruction from District staff on the proper preparation of quarterly reports. District staff will continue to work with sites and reinforce the importance of adhering to proper reporting procedures.

05-2. ASSOCIATED STUDENT BODY – CDDC #30000

Finding:

When the year-end physical inventory of one of the District's student stores was taken, a detailed reconciliation of inventory to sales was not performed. When the physical inventory was taken, the number of boxes (not the number of individual items) was recorded. Thus, it was not possible to perform a detailed reconciliation of cash receipts to sales.

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, 2005

05-3. ASSOCIATED STUDENT BODY – CDDC #30000

Finding:

During our review of the deposits and the general ledger reports sent by the District, it was noted that there is no specific information that can identify a deposited amount with a specific event. ASB Director is unable to generate reports or to have an understanding about which events are successful.

Recommendation:

ASB Director needs to write a more detailed description on the documentation that is sent to the District so that she can generate reports and have knowledge regarding the success of all events. Per District procedures, all sites should be using the "Revenue Potential Form."

District Response:

The need to maintain detailed records in order to understand profit of events. The District will continue to require sites to complete a "Revenue Potential Form" for all events.

05-4. ASSOCIATED STUDENT BODY – CDDC #30000

Finding:

We found that at one school site 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 misappropriation of ASB 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 supporting 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.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION III – STATE COMPLIANCE

05-5. KINDERGARTEN CONTINUATION – WASHINGTON 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 Washington Elementary School, we found that one kindergarten student was retained but no agreement was signed after the anniversary date. We determined the effect of this condition to be an overstatement of .9 ADA, totaling \$4,480.

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 subsequently revised and resubmitted its P-2.

District Response:

The overstatement of .9 ADA has been removed from the District's attendance report. Additionally, staff will continue to reinforce proper kindergarten continuation procedures with school sites.

05-6. TEACHER CREDENTIALS – CDDC #40000

Finding:

During our review of teaching credentials, it was noted that four out of the 22 teachers with classes that have more than 20% of English Language Learner students did not have the proper Clear Crosscultural, Language and Academic Development (B or CCLAD) Certificate.

Recommendation:

In order to comply with the State of California's regulations, the District needs to determine the teachers that are required to have the CCLAD certificate and not allow the teachers that do not comply with this requirement to teach in the classrooms in question. Currently, there is no fiscal impact but this may be subject to change in future years.

District Response:

The District will take necessary steps to ensure that teachers are properly credentialed.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

05-7. INSTRUCTIONAL MATERIALS– CDDC #40000

Finding:

During our testing of instructional materials, we noted that a resolution was not passed by the governing board to determine the availability of laboratory science equipment as applicable to science laboratory courses, and foreign language and health instructional materials, offered in grades 9-12, inclusive, in accordance with Education Code Section 60119.

Recommendation:

We recommend that in the future a separate determination be made by board resolution for science, laboratory materials, and foreign languages.

District Response:

The District will take necessary steps to ensure that these materials are treated in compliance with State of California's regulations.

05-8. CAL-SAFE UNDERSTATEMENT OF ATTENDANCE

Finding:

Cal-Safe attendance was not properly tracked during the current year due to the fact that the District included un-excused absences in the attendance. Also, the documentation of that attendance was not adequate or accurate as incomplete, and noted that the overall ADA claimed for Cal-Safe funding was understated by -0.15% ADA, resulting in a \$547.54 understatement.

Recommendation:

The District needs to ensure the ADA for the children is accurately tracked throughout the school year and to reduce the risk of improperly recoding ADA amount, follow the directions on the Cal-Safe form. We were able to assist the District in creating a template to aid in tracking the attendance. The District needs to ensure that unexcused absences are not included in the total ADA reported to the State.

District Response:

The District concurs and will implement the use of the template and will also contact the California Department of Education to re-issue the Attendance Form C.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION IV - FEDERAL COMPLIANCE

05-9. 21st CENTURY GRANT – CDDC #50000

Federal Agency: U.S. Department of Education
Award Year: 2004-05
Catalog Number: 84.287
Name of Pass-Through Entity: California Department of Education

Specific Requirement That Was Not Complied With:

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

Finding:

During our testing of federal programs, we noted that time studies were not properly maintained for the 21st Century Program Grant. Out of five employees selected for testing, noted that two employees had time certification missing both certification periods in the 2005 fiscal year. The amount of the questioned costs is \$20,813.68.

Cause of Condition:

Program staff are aware that certifications need to be completed, however staff did not ensure that all certificates completed by employees, and charged to the program, were maintained.

Recommendation:

We recommend that all files be maintained for several years and sorted by year for ease of filing and finding information.

District Response:

The District will take necessary steps to ensure that time studies are properly maintained.

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2005

<u>Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
SECTION II – FINANCIAL STATEMENT FINDINGS		
INTERNAL CONTROLS – REPORTABLE CONDITIONS		
04-1. ASSOCIATED STUDENT BODY – CDDC #30000	Finding continued in current year audit.	
1. 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 <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.		
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 supporting documentation to ensure that all money from each event was turned in.		
04-2. ASSOCIATED STUDENT BODY – CDDC #30000	Finding continued in current year audit.	
2. When the year-end physical inventory of one of the District's student stores was taken, a detailed reconciliation of inventory to sales was not performed.		

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2005

<u>Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
The principal should ensure that the ASB bookkeeper performs a detailed reconciliation of cash receipts to sales, after the year-end inventory is taken.		

SECTION III – STATE COMPLIANCE

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

- | | |
|---|---|
| <p>3. 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.</p> | <p>Finding continued in current year audit.</p> |
|---|---|

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.