

STOCKTON UNIFIED SCHOOL DISTRICT

**COUNTY OF SAN JOAQUIN
STOCKTON, CALIFORNIA**

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

YEAR ENDED JUNE 30, 2006

STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2006

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STOCKTON UNIFIED SCHOOL DISTRICT

YEAR ENDED JUNE 30, 2006

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FINANCIAL SECTION



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, 2006, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 2005-06*, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Stockton Unified School District, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 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.

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 2005-06*, 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.

November 3, 2006



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2006, is presented in this discussion and analysis of the district's financial position and performance.

This Management Discussion and Analysis should be read in conjunction with the district's financial statements, including notes and supplementary information, which immediately follow this section.

Financial Highlights

- Total government-wide revenue for the 2006 fiscal year was \$358.3 million. Expenditures totaled \$324.1 million, resulting in an increase to Net Assets of \$34.2 million. This represents a 17.55% increase to Net Assets over the previous year.
- Capital assets, net of depreciation, increased by \$52.4 million. Projects completed during the fiscal year include the construction of Cesar Chavez High School (\$51.0 million), modernization projects at Hamilton Elementary/Middle School (\$9.2 million) and Webster Middle School (\$9.4 million), and the purchase of land at Carpenter Road and Pock Lane (\$2.9 million.)
- \$55.8 million was expended on school construction, modernization, and other projects currently in the construction phase, bringing the total in Construction in Progress to \$82.5 million at year-end.
- \$60.0 million in General Obligation Bonds were issued from the \$120.0 million approved by district voters in November 2005. The bonds were given a credit rating of "AAA." The proceeds from the bonds will be used for the construction and renovation of school facilities.

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.

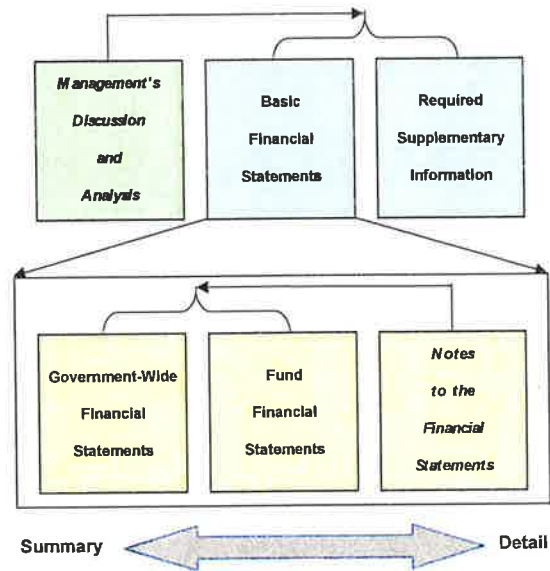
The fund financial statements can be further broken down into three types:

- *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, 2006 and 2005, along with the year-over-year change, is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2006	2005	
Current and other assets:			
Cash	\$ 123,875,835	\$ 94,379,550	\$ 29,496,285
Receivables	30,780,356	25,325,059	5,455,297
Inventories	1,383,892	1,612,811	(228,919)
Other current assets	2,434,999	1,601,474	833,525
Capital assets, net of depreciation	303,411,392	250,965,340	52,446,052
Total assets	461,886,474	373,884,234	88,002,240
Long-term debt outstanding	196,584,785	139,136,639	57,448,146
Other liabilities	36,510,980	40,121,438	(3,610,458)
Total liabilities	233,095,765	179,258,077	53,837,688
Net assets:			
Invested in capital assets, net of related debt	182,148,134	164,680,239	17,467,895
Restricted	44,950,041	25,175,358	19,774,683
Unrestricted	1,692,534	4,770,560	(3,078,026)
Total Net Assets	\$ 228,790,709	\$ 194,626,157	\$ 34,164,552

Total assets increased by a net total of \$88.0 million during the 2006 fiscal year. Cash accounts increased by \$29.5 million, receivable balances increased by \$5.5 million, and capital assets, net of depreciation, increased by a total of \$52.4 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 \$53.8 million. Of this total, long-term debt increased by \$57.4 million, while other liabilities, including accounts payable and deferred revenue decreased by \$3.6 million. Long-term debt will also be discussed later in this report.

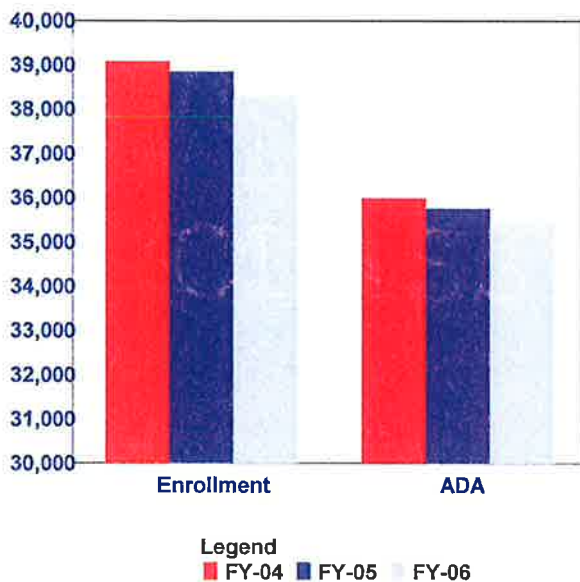
The difference between the \$88.0 million increase to Total assets and the \$53.8 million increase to Total liabilities results in a net \$34.2 million increase to Total Net Assets, a 17.55% change from the balance at June 30, 2005.

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
	2006	2005	
Revenues – Program:			
Charges for Services	\$ 3,684,721	\$ 3,656,460	\$ 28,261
Operating Grants and Contributions	115,532,051	110,722,017	4,810,034
Capital Grants and Contributions	7,138,724	9,747,688	(2,608,964)
Revenues – General:			
Unrestricted Federal and State Aid	173,835,510	163,076,490	10,759,020
Taxes Levied for General Purposes	36,700,956	37,663,376	(962,420)
Taxes Levied for Debt Service	6,130,428	5,374,575	755,853
Interest and Investment Earnings	3,667,316	2,103,971	1,563,345
Other General Revenues	11,622,378	14,025,153	(2,402,775)
Total Revenues	358,312,084	346,369,730	11,942,354
Expenses:			
Instruction	193,202,128	197,358,244	(4,156,116)
Pupil and Instructional Services	79,023,563	77,001,447	2,022,116
General Administration	13,912,986	17,391,529	(3,478,543)
Plant Services	31,275,862	30,370,645	905,217
Other Expenses	6,732,993	6,041,564	691,429
Total Expenses	324,147,532	328,163,429	(4,015,897)
Increase (Decrease) in Net Assets	34,164,552	18,206,301	15,958,251
Net Assets, Beginning of the Year	194,626,157	176,419,856	18,206,301
Net Assets, End of the Year	\$ 228,790,709	\$ 194,626,157	34,164,552

For the 2006 fiscal year, total district revenues were \$358.3 million. Total district expenses were \$324.1 million. The difference, \$34.2 million, is an increase to net assets, bringing total net assets at June 30, 2006 to \$228.8 million.



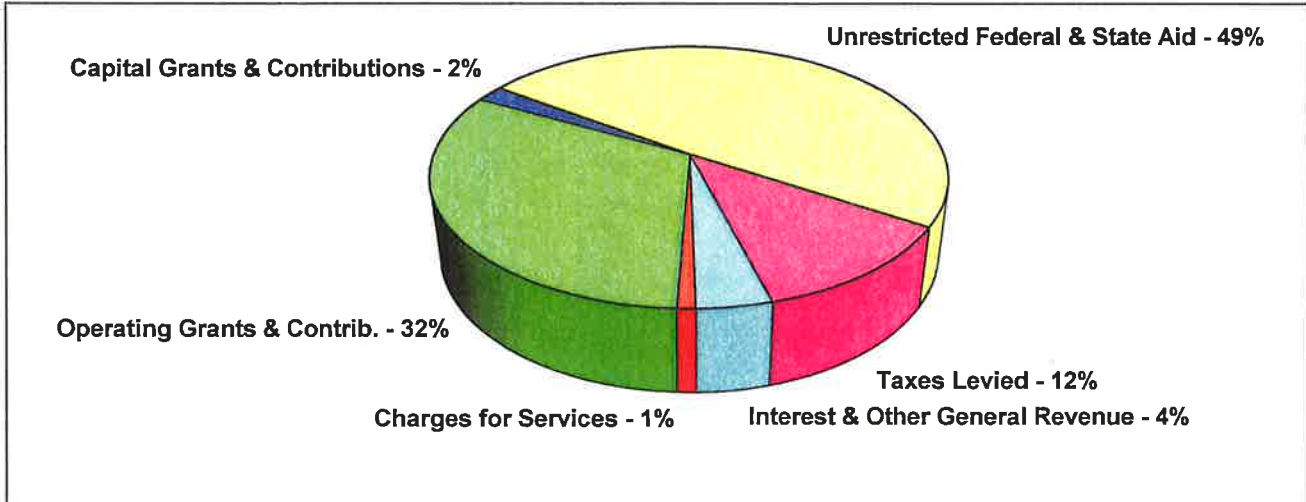
A main source of revenue for the district is the State Aid portion of the Revenue Limit, included in the Unrestricted Federal and State Aid total. The Revenue Limit is based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days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

District enrollment has declined 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 2004, 2005, and 2006. Total second month enrollment in Grades K – 12 for the 2006 fiscal year was 38,295 students, excluding charter school enrollment. The enrollment loss at the elementary and middle grades was partially offset by an increase in enrollment at grades 9 – 12.

P-2 ADA has also declined. For the 2006 fiscal year, the P-2 ADA totaled 35,413, a decrease of 342 ADA from the prior fiscal year.

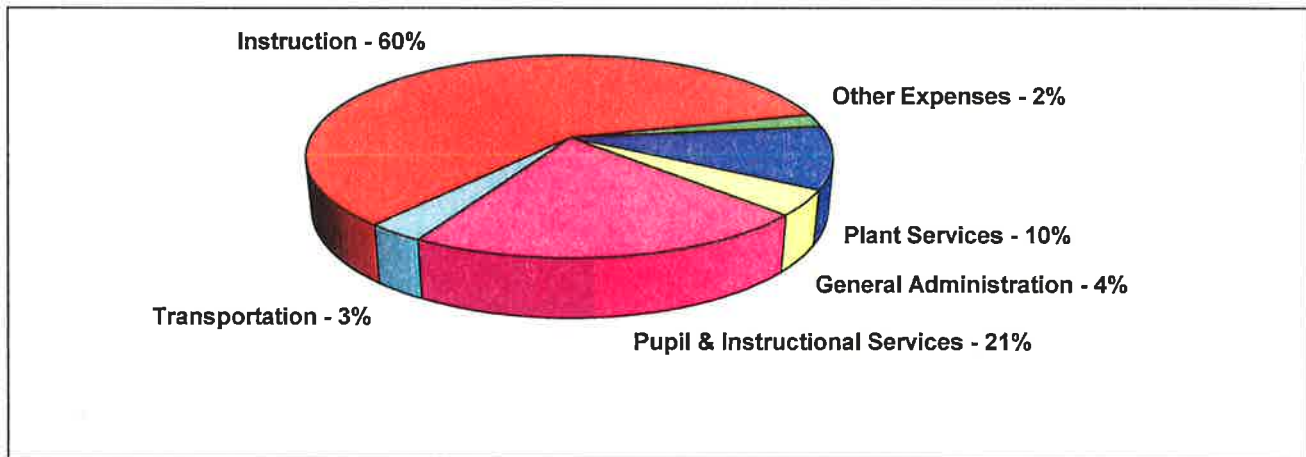
The following graph displays the Government-wide revenue sources by percentage.

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	
	2006	2005	2006	2005
Instruction, Instruction-related Services and Pupil Services	\$ 272,225,691	\$ 274,359,691	\$ 152,603,568	\$ 157,728,282
General Administrative and Plant Services	44,680,161	47,280,313	38,609,877	40,260,326
Ancillary Services	508,687	481,861	424,795	425,557
Totals	\$ 317,414,539	\$ 322,121,865	\$ 191,638,240	\$ 198,414,165

This table displays by function the total and net cost of services provided for the 2006 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, 2006, the district had fourteen governmental funds reporting a combined fund balance of \$103.8 million, an increase of \$33.0 million over the prior year. Of these funds, eight had revenues that exceeded expenditures in 2006, 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
	2006	2005	
General Fund	\$ 33,850,270	\$ 17,049,041	\$ 16,801,229
Charter Schools Special Revenue Fund	179,854	118,193	61,661
Adult Education Fund	4,970,607	3,916,974	1,053,633
Child Development Fund	194,063	191,547	2,516
Cafeteria Special Revenue Fund	1,188,893	609,201	579,692
Deferred Maintenance Fund	1,775,998	133,503	1,642,495
Building Fund	41,965,498	272,384	41,693,114
Capital Facilities Fund	6,150,309	9,531,446	(3,381,137)
County School Facilities Fund	8,665	212,389	(203,724)
Special Reserve for Capital Outlay Projects	4,579,618	26,454,706	(21,875,088)
Capital Proj. Fund for Blended Component Units	2,623,428	4,337,457	(1,714,029)
Bond Interest and Redemption Fund	891,533	2,735,336	(1,843,803)
Tax Override Fund	17,276	18,690	(1,414)
Debt Service Fund	5,430,895	5,195,895	235,000
Totals	\$ 103,826,907	\$ 70,776,762	\$ 33,050,145

General Fund Budgetary Highlights

The district's 2006 General Fund operating budget was adopted by the Governing Board in June of 2005. As adopted, projected revenues totaled \$297.8 million. Budgeted expenditures totaled \$297.2 million, with revenues projected to exceed expenditures by approximately \$0.5 million.

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

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

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

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Revenue:			
Revenue Limit	\$ 188,702,267	\$ 187,845,816	\$ 856,451
Federal Revenue	35,747,758	52,332,795	(16,585,037)
Other State Revenue	75,343,648	77,541,577	(2,197,929)
Other Local Revenue	7,906,166	7,763,963	142,203
Transfers In/Other Sources	156,750	--	156,750
Total Revenue	\$ 307,856,589	\$ 325,484,151	\$ (17,627,562)

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Expenditures:			
Certificated Salaries	\$ 145,726,195	\$ 152,544,483	\$ (6,818,288)
Classified Salaries	45,801,954	48,686,102	(2,884,148)
Employee Benefits	57,246,079	59,630,929	(2,384,850)
Books and Supplies	11,931,274	41,301,231	(29,369,957)
Services, Other Operating Expenses	26,692,367	29,009,040	(2,316,673)
Capital Outlay	766,478	732,203	34,275
Other Outgo/ Direct Support/Indirect Costs	1,269,966	1,022,084	247,882
Transfers Out/Other Uses	1,621,047	1,227,676	393,371
Total Expenditures	\$ 291,055,360	\$ 334,153,748	\$ (43,098,388)

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

Revenue

- Revenue Limit income, composed of state aid and local property taxes, totaled \$0.9 million more than budget due to various miscellaneous adjustments.
- Federal revenue was \$16.6 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 \$2.2 million less than budget due to revenue deferrals.
- Other local revenue was \$0.1 million more than budget due to miscellaneous adjustments.

Expenditures

- The salaries of certificated and classified personnel were \$9.7 million less than budget due to pending negotiations with the district's bargaining units.

- The cost for Employee benefits was \$2.4 million less than budget due to employee salaries being less than originally anticipated.
- The books and supplies expenditure category was \$29.4 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 \$2.3 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 combined totals for the Capital Outlay, Other Outgo/Direct Support/Indirect Costs, and Transfers Out/Other Uses categories were \$0.7 million higher than budget due to miscellaneous adjustments.

The table below displays actual General Fund revenue by major category for fiscal year 2006, along with the increase or decrease to fiscal year 2005 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

	General Fund			
	FY-2006 Actual	Percent Of Total	Increase (Decrease) from FY-2005	Percent Increase or (Decrease)
Revenues:				
Revenue Limit	\$ 188,702,267	61.33	\$ 8,546,672	4.74%
Federal Revenue	35,747,758	11.62	(4,633,649)	(11.47)%
Other State Revenue	75,343,648	24.49	5,773,508	8.30%
Other Local Revenue	7,906,166	2.56	2,918,155	58.50%
Total Revenues	\$ 307,699,839	100.00	\$ 12,604,686	4.27%

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-2006 Actual	Percent Of Total	Increase (Decrease) from FY-2005	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	\$ 145,726,195	50.35	\$ (1,173,337)	(0.80)%
Classified Salaries	45,801,954	15.82	277,822	0.61%
Employee Benefits	57,246,079	19.78	(4,896,925)	(7.88)%
Books and Supplies	11,931,274	4.12	(2,047,292)	(14.65)%
Services, Other Operating Expenses	26,692,367	9.22	471,164	1.80%
Capital Outlay	766,478	0.27	567,765	385.72%
Other Outgo	1,911,716	0.66	112,933	6.28%
Direct Support/Indirect Costs	(641,750)	(0.22)	427,056	39.96%
Total Expenditures	\$ 289,434,313	100.00	\$ (6,260,814)	(2.12)%

The district's financial condition was tested during the 2006 fiscal year because of declining enrollment and the uncertain, but slowly improving, state economic condition. The district's plan for moving forward in these turbulent economic times is discussed more fully in the "Economic Factors and Next Year's Budgets and Rates" section found later in this document.

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2006	2005
Land	\$ 14,926,757	\$ 12,016,815
Improvement of Sites	1,557,418	1,602,000
Buildings	200,810,268	135,895,272
Equipment	3,608,373	4,200,205
Construction in Progress	82,508,576	97,251,048
Totals	\$ 303,411,392	\$ 250,965,340

The table above reflects capital assets at June 30, 2006 and 2005, 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 \$52.4 million during the year. Major capital asset additions completed or purchased during the year include the following:

✓ Construction	Cesar Chavez High School	\$ 51.0 million
✓ Modernization	Webster Middle School	\$ 9.4 million
✓ Modernization	Hamilton Elementary/Middle School	\$ 9.2 million
✓ Modernization	Franklin High School	\$ 0.6 million
✓ Land Purchase	Carpenter Road and Pock Lane	\$ 2.9 million

A total of \$82.5 million has been expended on projects still in the construction phase. This includes construction work on Maxine Hong-Kingston, Wilhelmina Henry, and Richard Pittman Elementary Schools, the modernization of Fremont Elementary/Middle Schools, funds expended to bring about K-8 Reconfiguration, and construction and modernization work at other school sites within the district.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2006	2005
General Obligation Bonds	\$ 137,325,784	\$ 79,504,339
Certificates of Participation	25,466,956	26,025,399
Qualified Zone Academic Bonds Payable	6,635,000	6,635,000
Lighting Retrofit Payable	1,786,560	2,155,858
District-Wide Telephone System (VOIP)	788,696	1,295,714
State School Building Loan Payable	5,715	7,812
Compensated Absences	3,357,173	3,268,148
Other Postretirement Benefits	5,952,001	4,627,469
Claims Liability	13,290,628	13,290,628
Capital Leases	1,976,272	2,326,272
Totals	\$ 196,584,785	\$ 139,136,639

Outstanding debt increased by a net amount of \$57.4 million during the fiscal year. The increase primarily results from the sale of \$60.0 million in General Obligation bonds, the first issuance from the \$120.0 million in bonds approved by district voters in November of 2005. Standard and Poor's issued a credit rating of "AAA" on these bonds, the highest rating given by this company. At the time of issuance, the district's bonding capacity was \$243.5 million, based on the total assessed valuation of taxable property

within district boundaries of \$9.7 billion. The funds received from the sale of the bonds are being used for the construction of new schools and the renovation of existing school structures.

\$5.1 million of long-term debt was reduced through the scheduled repayment of principal during the fiscal year. All scheduled debt payments were made in a timely manner. The debt instrument for athletic equipment located at Weber Institute of Technology was retired during the fiscal year. Adequate reserves are available to make all required debt payments in the current year.

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

Economic Factors and Next Year's Budgets and Rates

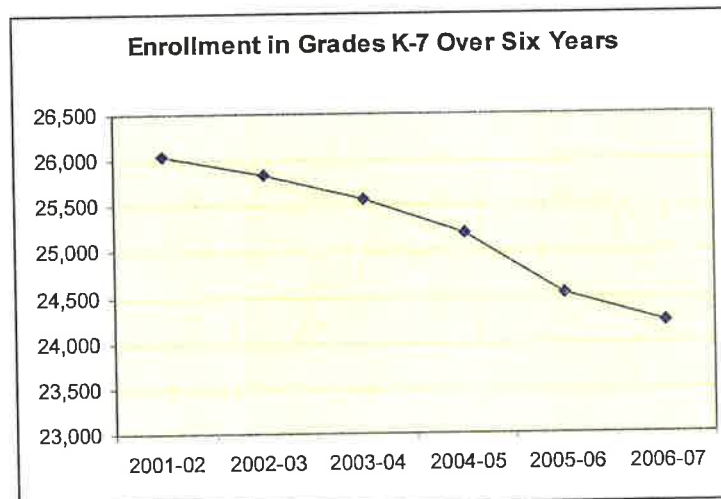
The 2006-07 Stockton Unified School District budget was developed with all components of the proposal presented by the Governor in January and any applicable May Revise adjustments. Critical budget assumptions included were:

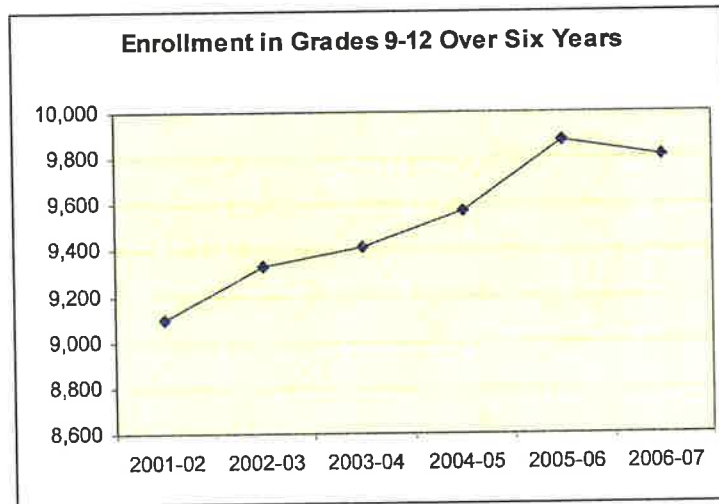
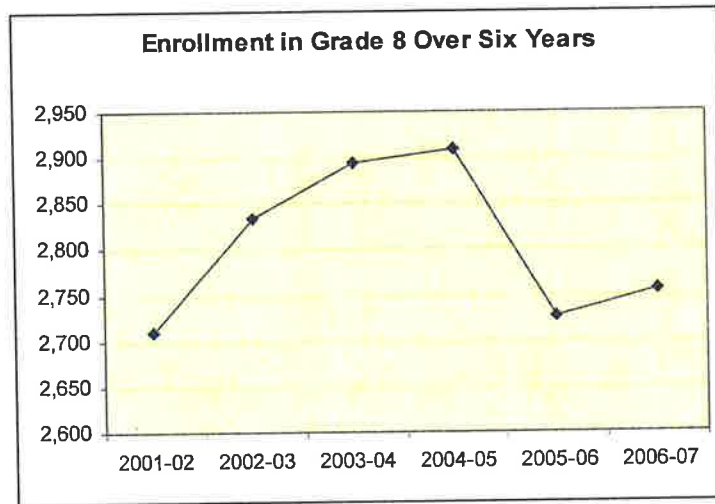
- Cost of Living Adjustment (COLA) of 5.92% for both the revenue limit and state program revenues.
- Staffing ratios used in computing required school site personnel.
- Step and Column movement on the salary schedule included.
- Retiree benefits budgeted with known rate increases
- Start-up costs for three new elementary schools and costs related to the K-8 reconfiguration plan have been included.

Enrollment Projections

One of the economic factors affecting the school district's future outlook and growth potential is enrollment. Enrollment represents the number of students attending school within the district's boundaries. A greater number of students attending schools within the district's boundaries means additional revenues through growth enrollment generated from average daily attendance (ADA). The district's enrollment pattern reflects declining enrollment over the next few years.

Declining enrollment means the future outlook for expanding school district deliverable operational service areas and supplies would most likely decrease over time. For example, fewer instructional support staff members and fewer orders for textbooks. All in all when a district's enrollment declines it requires contraction of operational service areas and supplies. A school district's enrollment declines for many reasons: Charter schools, home schooling, movement to neighboring districts, and migration to other states. The charts which follow provide an overview of the school district's enrollment pattern.





Revenue Limit COLA

The Revenue Limit COLA represents a percentage of additional dollars allocated to school districts in support of local operations. It is the state's way of recognizing increased costs experienced by school districts. However, far too often Revenue Limit COLAs are not adequate to offset actual increased operational costs. When this occurs, it may be necessary for a school district to reduce its overall operational costs.

As of the writing of this report, the school district is projecting future Revenue Limit COLA's as follows: 3.5% for 2007-08 and 2.8% for 2008-09. Generally speaking, this tells us that fewer dollars are anticipated from the state to support the school district's operation. As such, a decrease in state funding will most likely result in the school district decreasing its overall expenditures in order to avoid deficit spending.

Salaries and Benefits

Salaries and benefits are subject to negotiations each year based on collective bargaining agreements. Most school districts negotiate based on “total compensation” which consists of salaries and benefits. Total compensation generally refers to increases in salaries and health benefits. The school district anticipates that upward pressure to increase salary compensation and health benefits will continue over the next few years. Currently, the district allocates approximately 85% of the total General Fund expenditure budget toward salary and benefit related areas.

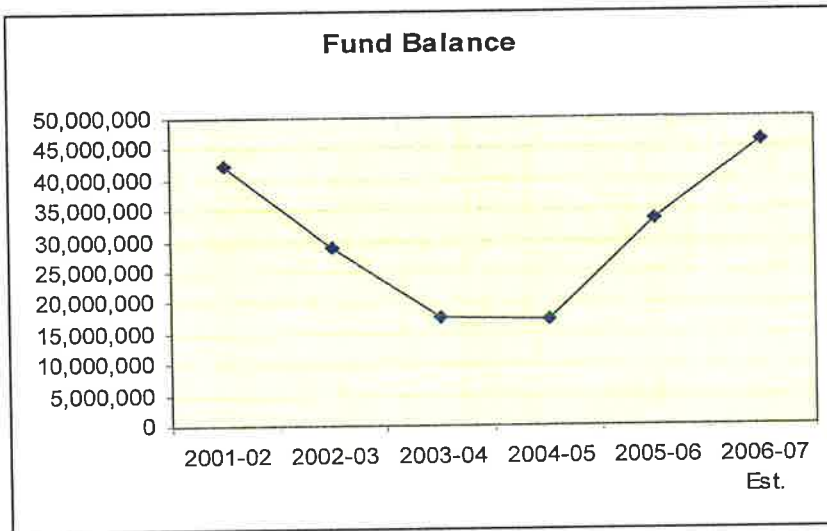
Health Rates

The cost of health care is expected to increase over the next few years. The district has established a health benefits allowance for 2006-07; however, upward pressure to increase health benefits allowance will undoubtedly continue as double digit health care cost continue to skyrocket. In any event, the district does not expect reduced health care costs in future years.

Fund Balance

The fund balance represents yearly differences between revenues and expenditures. The fund balance is either “added” to or subtracted “from” based on operational results of the district. Additionally, the fund balance is either unrestricted or restricted. An unrestricted fund balance means that unspent dollars are left to the district’s discretion. On the other hand, restricted dollars are not left to the school district’s discretion and are restricted based on guidelines established by the State Department of Education.

Additionally, the State Department of Education requires school districts to maintain a “Reserve for Economic Uncertainties” for unforeseen emergencies. The reserve for this district is based on 2% of the total General Fund expenditures (approximately \$6 million.). Setting aside a state required reserve means that the district has fewer dollars available for operational areas. As of the writing of this report, the projected unrestricted fund balance for the district is expected to remain fairly constant for the next few years. The chart below shows the history of the district’s fund balance.



Note: The estimate for FY 2007 includes any restricted balance estimates.

Conclusion

The district faces many challenges over the next few years: Declining enrollment, decreasing state funding, negotiating salary compensation, increased health care costs, and maintenance of a positive fund balance. However, proper planning and foresight will help the district balance financial resources with educational goals and objectives.

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, 2006

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 114,993,558
Restricted cash and equivalents	8,882,277
Receivables	30,780,356
Inventories	1,383,892
Prepaid expenditures	2,434,999
Capital assets:	
Land	14,926,757
Improvement of sites	4,205,983
Buildings	290,700,511
Machinery and equipment	10,150,180
Construction in progress	82,508,576
Less: accumulated depreciation	<u>(99,080,615)</u>
Total assets	<u>461,886,474</u>
LIABILITIES	
Accounts payable	23,456,228
Deferred revenue	13,054,752
Long-term liabilities, due within one year:	
Debt	4,614,998
Compensated absences	335,717
Claims and judgments	4,385,907
Long term liabilities, due in more than one year:	
Debt	175,321,986
Compensated absences	3,021,456
Claims and judgments	<u>8,904,721</u>
Total liabilities	<u>233,095,765</u>
NET ASSETS	
Invested in capital assets, net of related debt	182,148,134
Restricted for:	
Capital projects	2,605,792
Debt Service	5,143,406
Educational programs	20,155,839
Other purposes (expendable)	17,045,004
Unrestricted	1,692,534
Total net assets	<u>\$ 228,790,709</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 193,202,128	\$ 1,473,222	\$ 73,669,595	\$ 7,138,724	\$ (110,920,587)
Instruction-related services:					
Supervision of instruction	16,276,220	41,525	10,471,124		(5,763,571)
Instructional library, media, and technology	1,818,099	163	504,677		(1,313,259)
School site administration	21,892,764	120,804	2,005,935		(19,766,025)
Pupil services:					
Pupil transportation	9,676,979	7,535	4,942,364		(4,727,080)
Food services	11,600,374	1,786,423	10,126,878		312,927
Other pupil services	17,759,127	53,855	7,279,299		(10,425,973)
General administration:					
Data Processing	2,721,299				(2,721,299)
Other General	10,674,368	121,255	3,211,003		(7,342,110)
Plant services	31,275,862	22,913	2,715,113		(28,537,836)
Ancillary services	508,687		83,892		(424,795)
Enterprise activities	8,632				(8,632)
Interest on long-term debt	5,267,881				(5,267,881)
Other outgo	1,061,893	57,026	522,171		(482,696)
Depreciation (unallocated)	403,219				(403,219)
Totals	\$ 324,147,532	\$ 3,684,721	\$ 115,532,051	\$ 7,138,724	(197,792,036)

General revenues:

Taxes and subventions:	
Taxes levied for general purposes	36,700,956
Taxes levied for debt service	6,130,428
Taxes levied for other specific purposes	1,993,483
Federal and state aid not restricted to specific purposes	173,835,510
Developer fees	7,030,423
Interest and investment earnings	3,667,316
Transfers from other agencies	617,141
Miscellaneous revenue	1,703,755
Special and extraordinary items	277,576
Total general revenues	231,956,588
Increase (decrease) in net assets	34,164,552
Net assets -beginning	194,626,157
Net assets - ending	\$ 228,790,709

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Building Fund	Special Reserve Fund for Capital		Other Governmental Funds	Total Governmental Funds
			Outlay			
ASSETS						
Cash and equivalents	\$ 32,265,323	\$ 45,116,151	\$ 7,605,574	\$ 16,209,951	\$ 101,196,999	
Restricted cash and equivalents			3,465,180	5,417,097	8,882,277	
Receivables	25,023,376	561,728	388,628	4,650,492	30,624,224	
Due from other funds	1,320,766		267,515	1,343,260	2,931,541	
Inventories	1,073,932			309,960	1,383,892	
Prepaid expenditures	238,316				238,316	
Total assets	\$ 59,921,713	\$ 45,677,879	\$ 11,726,897	\$ 27,930,760	\$ 145,257,249	
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 8,820,706	\$ 3,712,381	\$ 7,146,577	\$ 1,905,984	\$ 21,585,648	
Due to other funds	1,342,610		702	1,582,551	2,925,863	
Deferred revenue	15,908,127			1,010,704	16,918,831	
Total liabilities	26,071,443	3,712,381	7,147,279	4,499,239	41,430,342	
Fund balances:						
Reserved for:						
Revolving cash	70,000			2,210	72,210	
Inventories	1,073,932			309,960	1,383,892	
Prepaid expenditures	238,316				238,316	
Debt service				6,339,704	6,339,704	
Legally restricted programs	19,975,986				19,975,986	
Unreserved, reported in:						
General fund	12,492,036				12,492,036	
Special revenue funds				7,997,244	7,997,244	
Capital projects funds		41,965,498	4,579,618	8,782,403	55,327,519	
Total fund balances	33,850,270	41,965,498	4,579,618	23,431,521	103,826,907	
Total liabilities and fund balances	\$ 59,921,713	\$ 45,677,879	\$ 11,726,897	\$ 27,930,760	\$ 145,257,249	

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, 2006

Total fund balance, governmental funds	\$ 103,826,907
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The historical cost of the capital assets is \$402,492,007, and the accumulated depreciation is \$99,080,615.	303,411,392
Unamortized cost: in governmental funds, debt issue costs are recognized 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 are included in prepaid expense on the Statement of Net Assets.	1,885,716
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 unmaturred interest owing at the end of the period was:	(1,196,298)
Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is available, meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statements is:	3,864,079
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.	(183,294,159)
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>293,072</u>
Total net assets, governmental activities	<u>\$ 228,790,709</u>

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
State apportionment	\$ 152,001,311			\$ 5,351,456	\$ 157,352,767
Local sources	36,700,956				36,700,956
Total revenue limit	<u>188,702,267</u>			5,351,456	194,053,723
Federal revenues	35,747,758			10,710,901	46,458,659
Other state revenues	75,343,648			18,698,557	94,042,205
Other local revenues	7,906,166	\$ 782,560	\$ 577,467	12,046,625	21,312,818
Total revenues	<u>307,699,839</u>	<u>782,560</u>	<u>577,467</u>	<u>46,807,539</u>	<u>355,867,405</u>
EXPENDITURES					
Current:					
Instruction	178,872,966			6,276,644	185,149,610
Instruction-related services:					
Supervision of instruction	15,850,900			346,059	16,196,959
Instructional library, media and tech	1,682,242				1,682,242
School site administration	20,764,153			1,085,392	21,849,545
Pupil services:					
Pupil transportation	9,599,568				9,599,568
Food services	718			11,368,227	11,368,945
Other pupil services	17,200,393			583,384	17,783,777
Ancillary services	508,687				508,687
Enterprise activities				35	35
General administration:					
Data processing services	2,594,224				2,594,224
Other general administration	9,500,372			862,457	10,362,829
Plant services	29,578,746		109,282	1,243,651	30,931,679
Debt Service:					
Principal	1,674			2,985,767	2,987,441
Interest and other charges	1,008,960	156,805	41,879	6,599,853	7,807,497
Debt issuance charges		465,600			465,600
Capital outlay	1,369,629	14,925,337	45,195,845	1,909,819	63,400,630
Transfers to other agencies	901,081				901,081
Total Expenditures	<u>289,434,313</u>	<u>15,547,742</u>	<u>45,347,006</u>	<u>33,261,288</u>	<u>383,590,349</u>
Excess (deficiency) of revenues over expenditures	<u>18,265,526</u>	<u>(14,765,182)</u>	<u>(44,769,539)</u>	<u>13,546,251</u>	<u>(27,722,944)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers out	(1,621,047)	(4,037,217)		(19,205,715)	(24,863,979)
Interfund transfers in	155,103		22,894,451	1,814,425	24,863,979
Debt proceeds		60,000,000			60,000,000
All other financing sources	1,647	495,513		275,929	773,089
Total other financing sources and uses	<u>(1,464,297)</u>	<u>56,458,296</u>	<u>22,894,451</u>	<u>(17,115,361)</u>	<u>60,773,089</u>
Increase (Decrease) in fund balances	16,801,229	41,693,114	(21,875,088)	(3,569,110)	33,050,145
Fund balances - beginning	17,049,041	272,384	26,454,706	27,000,631	70,776,762
Fund balances - ending	<u>\$ 33,850,270</u>	<u>\$ 41,965,498</u>	<u>\$ 4,579,618</u>	<u>\$ 23,431,521</u>	<u>\$ 103,826,907</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, 2006

Net change in fund balances - total governmental funds:	\$	33,050,145
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:		52,511,052
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:		4,511,243
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:		(60,495,513)
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:		400,388
Gain or Loss from Disposal of Capital Assets: In governmental funds, the entire proceeds from disposal of capital asses are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:		(65,000)
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:		2,167,103
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:		979,283
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:		(89,024)
Postemployment benefits other than pension (OPEB): In governmental funds, OPEB 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 annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was:		(1,324,532)
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:		(59,070)
Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full-cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the Statement of Activities. The net increase or decrease in internal service funds was:		<u>2,578,477</u>
Change in net assets of governmental activities	\$	<u><u>34,164,552</u></u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
ASSETS	
Current assets:	
Cash and equivalents	\$ 13,796,559
Accounts receivable	156,132
Prepaid expenses	310,968
Total assets	<u>14,263,659</u>
LIABILITIES	
Current liabilities:	
Accounts payable	674,281
Due to other funds	5,678
Claims and judgments	4,385,907
Total current liabilities	<u>5,065,866</u>
Long-term liabilities due in more than one year:	
Claims and judgments	8,904,721
Total liabilities	<u>13,970,587</u>
NET ASSETS	
Unrestricted	293,072
Total net assets	<u>\$ 293,072</u>

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
OPERATING REVENUES	
Charges for services	\$ 14,080,209
OPERATING EXPENSES	
Claims and administration	5,040,743
Services and operating expenditures	6,912,774
Total operating expenses	<u>11,953,517</u>
Operating income	<u>2,126,692</u>
NON-OPERATING REVENUES	
Interest and investment earnings	<u>451,784</u>
Increase in net assets	2,578,476
Net assets (deficit) - beginning	<u>(2,285,404)</u>
Net assets - ending	<u>\$ 293,072</u>

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 14,002,983
Payments to suppliers	(7,178,890)
Payments to/from other funds	5,223
Claims paid	(5,040,743)
Net cash and equivalents provided by operating activities	<u>1,788,573</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>451,784</u>
Net increase in cash and equivalents	2,240,357
Cash and equivalents – beginning of year	11,556,202
Cash and equivalents – end of year	<u>\$ 13,796,559</u>
Reconciliation of operating income to net cash and equivalents provided by operating activities:	
Operating income	\$ 2,126,692
Adjustments to reconcile operating gain to net cash and equivalents provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	(77,226)
Due from other funds	3,376
Prepaid expenses	(300,385)
Accounts payable	34,269
Due to other funds	1,847
Net cash and equivalents provided by operating activities	<u>\$ 1,788,573</u>

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,210,696
LIABILITIES	
Accounts payable	\$ 1,456,022
Due to student groups and other agencies	754,674
Total Liabilities	<u>\$ 2,210,696</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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 THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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.

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

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

Fiduciary funds are reported using the economic resources measurement focus. 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 THE FINANCIAL STATEMENTS
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Deferred Revenue – Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been offset with deferred revenue.

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

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

E. **FUND ACCOUNTING**

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

Major Governmental Funds

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

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

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

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

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

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

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

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

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

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

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

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

The **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 THE FINANCIAL STATEMENTS
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Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. 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
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The District has the option of reporting expenditures for prepaid items in governmental funds either when paid or during the benefiting period. The District has chosen to report the expenditure when paid.

I. CAPITAL ASSETS

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

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

J. COMPENSATED ABSENCES

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

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

K. FUND BALANCE RESERVES AND DESIGNATIONS

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

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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 THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:		
Cash and equivalents	\$	114,993,558
Restricted cash and equivalents		8,882,277
Fiduciary funds:		
Cash and equivalents		<u>2,210,696</u>
Total cash, equivalents, investments	\$	<u>126,086,531</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash with financial institutions	\$	10,730,864
Cash and investments with investment pools		<u>115,355,667</u>
Total cash and investments	\$	<u>126,086,531</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 THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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	40%	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 THE FINANCIAL STATEMENTS
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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	\$ 113,941,340	.31
Local Agency Investment Fund (LAIF)	<u>1,414,326</u>	N/A
Total	<u>\$ 115,355,666</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 \$1,382,225.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2006:

	General Fund	Building Fund	Special Reserve for Capital Outlay	Other Governmental Funds	Internal Service Funds	Total Governmental Funds
Federal government	\$ 4,499,036			\$ 2,154,507		\$ 6,653,543
State government	9,333,598			1,999,714		11,333,312
Local government	478,077			204,795		682,872
Interest	760,056	\$ 561,728	\$ 93,033	194,117	\$ 150,907	1,759,841
Unrestricted	9,952,609		295,595	97,359	5,225	10,350,788
Totals	<u>\$ 25,023,376</u>	<u>\$ 561,728</u>	<u>\$ 388,628</u>	<u>\$ 4,650,492</u>	<u>\$ 156,132</u>	<u>\$ 30,780,356</u>

Included in receivables in the government-wide financial statements is a receivable for a favorable settlement relating to special education programs and services in the amount of \$763,304. The District will collect this receivable over the next five 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, 2006 were as follows:

Payable Fund	Receivable Fund			
	General Fund	Special Reserve for Capital	Other Governmental Funds	Total Governmental Funds
General Fund			\$ 1,342,610	\$ 1,342,610
Special Reserve Fund for Capital Outlay	\$ 52		650	702
Other Governmental Funds	1,315,036	\$ 267,515		1,582,551
Internal Service Funds	5,678			5,678
Totals	<u>\$ 1,320,766</u>	<u>\$ 267,515</u>	<u>\$ 1,343,260</u>	<u>\$ 2,931,541</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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, 2006 were as follows:

Transfer In	Transfer Out			Totals
	General Fund	Building Fund	Other Governmental Funds	
General Fund			\$ 155,103	\$ 155,103
Building Fund				
Special Reserve Fund for Capital Outlay		\$ 3,843,839	19,050,612	22,894,451
Other Governmental Funds	\$ 1,621,047	193,378		1,814,425
Totals	\$ 1,621,047	\$ 4,037,217	\$ 19,205,715	\$ 24,863,979

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 12,016,815	\$ 2,909,942		\$ 14,926,757
Construction in progress	97,251,048	55,779,555	(70,522,027)	82,508,576
Total capital assets, not being depreciated	<u>109,267,863</u>	<u>58,689,497</u>	<u>(70,522,027)</u>	<u>97,435,333</u>
Capital assets, being depreciated:				
Improvement of sites	4,142,739	63,244		4,205,983
Buildings	220,241,728	70,468,011	(9,228)	290,700,511
Machinery and equipment	10,302,180	108,000	(260,000)	10,150,180
Total capital assets, being depreciated	<u>234,686,647</u>	<u>70,639,255</u>	<u>(269,228)</u>	<u>305,056,674</u>
Less accumulated depreciation for:				
Improvement of sites	(2,540,739)	(107,826)		(2,648,565)
Buildings	(84,346,456)	(5,543,787)		(89,890,243)
Machinery and equipment	(6,101,975)	(634,832)	195,000	(6,541,807)
Total accumulated depreciation	<u>(92,989,170)</u>	<u>(6,286,445)</u>	<u>195,000</u>	<u>(99,080,615)</u>
Total capital assets, being depreciated, net	<u>141,697,477</u>	<u>64,352,810</u>	<u>(74,228)</u>	<u>205,976,059</u>
Governmental activities capital assets, net	<u>\$ 250,965,340</u>	<u>\$ 123,042,307</u>	<u>\$ (70,596,255)</u>	<u>\$ 303,411,392</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

For the year ended June 30, 2006, depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$	5,620,162
Pupil transportation		79,691
Food services		22,850
Plant services		32,709
Other general administration		127,814
Depreciation (unallocated portion)		<u>403,219</u>
Total depreciation expense	\$	<u>6,286,445</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>
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	735,000	902,519	1,637,519
2012-2016	4,190,000	3,923,650	8,113,650
2017-2021	5,295,000	2,798,791	8,093,791
2022-2026	6,800,000	1,297,813	8,097,813
2027	<u>1,596,000</u>	<u>40,488</u>	<u>1,636,488</u>
Subtotal	20,641,000	11,883,642	32,524,642
Plus: Unamortized Premium	<u>211,816</u>		<u>211,816</u>
Totals	<u>\$ 20,852,816</u>	<u>\$ 11,883,642</u>	<u>\$ 32,736,458</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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>
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	885,000	1,101,064	1,986,064
2012-2016	4,995,000	4,982,350	9,977,350
2017-2021	6,145,000	3,721,438	9,866,438
2022-2026	7,725,000	2,065,735	9,790,735
2027-2028	<u>3,640,000</u>	<u>275,250</u>	<u>3,915,250</u>
Subtotal	26,590,000	16,829,043	43,419,043
Plus: Unamortized Premium	<u>427,466</u>		<u>427,466</u>
Totals	<u>\$ 27,017,466</u>	<u>\$ 16,829,043</u>	<u>\$ 43,846,509</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>
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	900,000	1,109,184	2,009,184
2012-2016	5,015,000	5,002,200	10,017,200
2017-2021	6,125,000	3,960,563	10,085,563
2022-2026	7,655,000	2,438,360	10,093,360
2027-2029	<u>5,530,000</u>	<u>526,431</u>	<u>6,056,431</u>
Subtotal	28,475,000	17,794,374	46,269,374
Plus: Unamortized Premium	<u>491,731</u>		<u>491,731</u>
Totals	<u>\$ 28,966,731</u>	<u>\$ 17,794,374</u>	<u>\$ 46,761,105</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

General Obligation Bonds

In March 2006, the District issued General Obligation Bonds in the amount of \$60,000,000, with interest rates ranging from 4 to 5%.

The bonds mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007		\$ 2,646,453	\$ 2,646,453
2008		2,653,825	2,653,825
2009	\$ 2,980,000	2,579,325	5,559,325
2010		2,504,825	2,504,825
2011	165,000	2,501,525	2,666,525
2012-2016	3,680,000	12,185,475	15,865,475
2017-2021	8,930,000	10,866,500	19,796,500
2022-2026	16,600,000	8,132,169	24,732,169
2027-2031	27,645,000	3,375,121	31,020,121
Subtotal	60,000,000	47,445,218	107,445,218
Plus: Unamortized Premium	488,771		488,771
Totals	\$ 60,488,771	\$ 47,445,218	\$ 107,933,989

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, 2006, the principal balance outstanding was \$13,530,000.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	675,000	601,665	1,276,665
2012-2016	3,980,000	2,428,603	6,408,603
2017-2021	5,265,000	1,216,463	6,481,463
2022	1,245,000	66,919	1,311,919
Totals	\$ 13,530,000	\$ 7,027,166	\$ 20,557,166

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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 \$11,936,956.

The certificates mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	205,379	54,621	260,000
2012-2016	1,298,447	686,553	1,985,000
2017-2021	2,186,984	2,363,016	4,550,000
2022-2026	3,051,596	5,598,405	8,650,000
2027-2031	2,938,660	8,311,341	11,250,000
2032-2034	1,710,249	6,544,751	8,255,000
Totals	<u>\$ 11,936,956</u>	<u>\$ 23,638,046</u>	<u>\$ 35,575,002</u>

Qualified Zone Academy Bonds

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 382,164	\$ 57,640	\$ 439,804
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	\$ 1,786,560	\$ 154,517	\$ 1,941,077

State School Building Loans Payable

State school building loan activity for the year ended June 30, 2006 was as follows:

Balance July 1, 2005	Interest Charge	Repayment Current Year	Outstanding June 30, 2006
\$ 7,812	\$	\$ 2,097	\$ 5,715

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.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Future minimum lease payments as of June 30, 2006 are as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2007	\$ 928,385
2008	647,175
2009	371,884
2010	371,884
2011	371,884
2012	<u>371,884</u>
Total	3,063,096
Less Amount Representing Interest	<u>(298,126)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,764,970</u>

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

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds - 2001	\$ 22,033,405		\$ 1,180,590	\$ 20,852,814	\$ 10,591
General Obligation Bonds - 2003	27,757,348		739,882	27,017,466	769,882
General Obligation Bonds - 2004	29,713,586		746,855	28,966,731	781,855
General Obligation Bonds - 2006		\$ 60,495,513	6,742	60,488,771	20,225
Certificates of Participation - 1997	14,050,000		520,000	13,530,000	545,000
Certificates of Participation - 2004	11,975,399		38,443	11,936,956	79,609
Qualified Zone Academy Bonds	1,635,000			1,635,000	
Qualified Zone Academy Bonds	5,000,000			5,000,000	
CA Energy Commission Loan	2,155,858		369,298	1,786,560	382,077
State School Building Loans	7,812		2,097	5,715	2,097
Post-Employment Benefits (Note 12)	4,627,469	1,324,532		5,952,001	1,190,400
Claims Liability (Note 8)	13,290,628			13,290,628	4,385,907
Capital Leases	3,621,986		857,016	2,764,970	833,262
Compensated Absences	<u>3,268,148</u>	<u>89,024</u>		<u>3,357,173</u>	<u>335,717</u>
Total	<u>\$ 139,136,639</u>	<u>\$ 61,909,070</u>	<u>\$ 4,460,923</u>	<u>\$ 196,584,785</u>	<u>\$ 9,336,622</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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, 2006, 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, 2006 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 76.1 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 2006-07 fiscal year.

Changes in claims liability for the years ended June 30, 2006 and 2005 are as follows:

	Liability Beginning of Year	Claims and Changes in Estimates	Claims Payments	Liability End of Year
2005-2006	\$ 13,290,628	\$ 6,034,003	\$ (6,034,003)	\$ 13,290,628
2004-2005	\$ 9,830,451	\$ 5,812,733	\$ (2,352,556)	\$ 13,290,628

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.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Condensed audited financial information for NCSReLiEF for the year ended June 30, 2005, the most current information available, is as follows:

Total Assets	\$ 35,705,251
Total Liabilities	\$ 27,489,654
Retained Earnings	8,215,597
	<u>\$ 35,705,251</u>
Total Revenues	\$ 32,514,445
Total Expenses	26,763,367
Net Increase in Retained Earnings	<u>\$ 5,751,078</u>

Schools Excess Liability Fund

The District is also a member of the Schools Excess Liability Fund (SELF) for the operation of a common risk management and insurance program. The program pools excess liability. 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.

Condensed unaudited financial information for SELF for the year ended June 30, 2005, the most current information available, is as follows:

Total Assets	\$ 215,556,926
Total Liabilities	\$ 174,580,478
Retained Earnings	40,976,448
	<u>\$ 215,556,926</u>
Total Revenues	\$ 65,335,065
Total Expenses	25,751,973
Net Increase in Retained Earnings	<u>\$ 39,583,092</u>

10. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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 \$43,917,658 at June 30, 2006. 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).

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 2005-2006 was 9.116% 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, 2006, 2005, and 2004 were \$4,035,811, \$4,236,003 and \$4,437,707 respectively, and equal 100% of the required contributions for each year.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

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 2005-2006 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, 2006, 2005, and 2004 were \$12,111,422, \$12,113,379 and \$12,350,585 respectively, and equal 100% of the required contributions for each year.

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, 2006, 304 retirees met these eligibility requirements. Benefits are provided for retirees age 55 to 65. The District pays up to \$1,095.32 per month for health benefits of retirees on a pay-as-you-go basis. During the year ended June 30, 2006, expenditures of \$4,060,331 were recognized for retiree health care benefits. The liability at June 30, 2006 is \$5,952,001, 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 \$6,365,766 (4.517% of salaries subject to STRS).

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
			<u>GAAP</u>	<u>Favorable</u>
			<u>Basis</u>	<u>(Unfavorable)</u>
REVENUES				
State apportionment	\$ 148,617,383	\$ 151,161,417	\$ 152,001,311	\$ 839,894
Local sources	38,874,096	36,684,699	36,700,956	16,257
Total revenue limit	187,491,479	187,846,116	188,702,267	856,151
Federal revenues	39,089,877	52,332,795	35,322,608	(17,010,187)
Other state revenues	66,012,511	77,541,577	75,768,798	(1,772,779)
Other local revenues	4,491,679	7,763,963	7,906,166	142,203
Total revenues	<u>297,085,546</u>	<u>325,484,451</u>	<u>307,699,839</u>	<u>(17,784,612)</u>
EXPENDITURES				
Certificated personnel salaries	139,927,335	152,544,483	145,726,195	6,818,288
Classified personnel salaries	46,081,040	48,686,102	45,801,953	2,884,149
Employee benefits	62,197,068	59,630,929	57,246,078	2,384,851
Books and supplies	18,455,730	41,301,231	11,931,275	29,369,956
Services and other operating expenditures	27,666,430	29,009,040	26,692,367	2,316,673
Capital outlay	241,733	732,203	766,478	(34,275)
Other outgo	2,071,055	1,565,475	1,269,965	295,510
Debt service	(763,634)	(543,391)		(543,391)
Total expenditures	<u>295,876,757</u>	<u>332,926,072</u>	<u>289,434,311</u>	<u>43,491,761</u>
Excess (deficiency) of revenues over expenditures	<u>1,208,789</u>	<u>(7,441,621)</u>	<u>18,265,528</u>	<u>25,707,149</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	527,485		155,103	155,103
Interfund transfers out	(1,299,783)	(1,227,676)	(1,621,048)	(393,372)
All other financing sources			1,647	
Total other financing sources (uses)	<u>(772,298)</u>	<u>(1,227,676)</u>	<u>(1,464,299)</u>	<u>(236,623)</u>
Net increase (decrease) in fund balance	436,491	(8,669,297)	16,801,229	25,470,526
Fund balance – beginning	<u>17,463,550</u>	<u>17,049,041</u>	<u>17,049,041</u>	
Fund balance – ending	<u>\$ 17,900,041</u>	<u>\$ 8,379,744</u>	<u>\$ 33,850,270</u>	<u>\$ 25,470,526</u>

SUPPLEMENTARY INFORMATION SECTION

STOCKTON UNIFIED SCHOOL DISTRICT

JUNE 30, 2006

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 38 elementary, 4 intermediate, and 7 high schools, including Weber Institute, Institute of Business 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>
Anthony R. Silva	President	2008
Venice Holladay	Vice-President	2006
Sarah Bowden	Member	2008
Glen A. Dolberg, Ph.D.	Member	2006
Edward R. Garcia	Member	2008
Louis Gonzales	Member	2006
Katrina L. Rios	Member	2006

ADMINISTRATION

Carl Toliver
Interim Superintendent

Jack McLaughlin
Superintendent-Elect

Manual L. Isquierdo
Deputy Superintendent

Allyn Bulzomi
Assistant Superintendent, Human Resources

Wayne Martin
Executive Director, Business Services

Art Hand
Executive Director, Support Services

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2006

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	2,868	2,852
Grades 1 through 3	8,826	8,701
Grades 4 through 6	8,701	8,703
Grades 7 and 8	5,101	5,012
Special Education	656	673
Opportunity Schools	38	39
Home and Hospital	10	15
Community Day School	36	34
Extended Year ADA	41	41
Elementary Totals	<u>26,277</u>	<u>26,070</u>
High School:		
Grades 9 through 12, Regular Classes	8,217	8,084
Special Education	420	409
Continuation Education	310	288
Opportunity Schools	6	6
Home and Hospital	29	24
Community Day School	68	61
Extended Year ADA	87	87
High School Totals	<u>9,137</u>	<u>8,959</u>
Classes for Adults:		
Concurrently Enrolled	97	86
Not Concurrently Enrolled	1,485	1,446
ADA Totals	<u>36,996</u>	<u>36,561</u>
		<u>Hours of Attendance</u>
Supplemental Instruction:		
Elementary		281,968
Secondary		327,724

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

YEAR ENDED JUNE 30, 2006

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

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

YEAR ENDED JUNE 30, 2006

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2005-2006 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	36,000	36,000	180	175	In Compliance
Grades 1 - 3	50,250	50,400	54,000	180	175	In Compliance
Grades 4 - 6	53,850	54,000	54,000	180	175	In Compliance
Grades 7 - 8	58,500	54,000	58,500	180	175	In Compliance
Grades 9 - 12	64,980	64,800	64,980	180	175	In Compliance

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

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2006

GENERAL FUND

	June Adopted Budget 2007	2006	2005	2004
Revenues and other financial sources	\$ 307,056,832	\$ 307,856,589	\$ 296,138,957	\$ 289,098,650
Expenditures	293,230,962	289,434,313	295,695,127	293,507,763
Other uses and transfers out	<u>1,271,676</u>	<u>1,621,047</u>	<u>968,000</u>	<u>6,767,581</u>
Total outgo	294,502,638	291,055,360	296,663,127	300,275,344
Change in fund balance	<u>12,554,194</u>	<u>16,801,229</u>	<u>(524,170)</u>	<u>(11,176,694)</u>
Ending fund balance	\$ <u>46,404,464</u>	\$ <u>33,850,270</u>	\$ <u>17,049,041</u>	\$ <u>17,573,211</u>
Available reserves ¹	\$ <u>5,890,053</u>	\$ <u>8,183,528</u>	\$ <u>6,313,210</u>	\$ <u>6,229,603</u>
Designated for economic uncertainties	\$ <u>5,890,053</u>	\$ <u>5,821,107</u>	\$ <u>5,912,341</u>	\$ <u>6,229,603</u>
Undesignated fund balance	\$ <u>0</u>	\$ <u>2,362,421</u>	\$ <u>400,869</u>	\$ <u>0</u>
Available reserves as a percentage of total outgo	2.00%	2.81%	2.12%	2.07%
Total long-term debt	\$ 184,099,651	\$ 194,060,920	\$ 139,136,639	\$ 135,969,124
Average daily attendance at P-2 ²	34,713	35,243	35,756	35,997

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

² Excludes Adult Education ADA.

The general fund balance has increased by \$16,277,059 over the past two years. The fiscal year 2006-07 budget projects an increase of \$12,554,194 (73.6%). For a district this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo).

The District incurred operating deficits in two out of the past three years, but does not anticipate incurring an operating deficit during the 2006-07 fiscal year. Total long-term debt has increased by \$58,091,796 over the past two years.

Average daily attendance has decreased by 754 over the past two years, and a decrease of 530 is anticipated during fiscal year 2006-07.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

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	\$ 17,687,225
Transition to Teaching Program	84.350A		328,062
Professional Development Music Education	84.351C	None	82,252
Gear It Up	84.334	10088	826,518
Improving Social Literacy - Library Program	84.364	None	247,596
Title VI - Innovative Education Program Strategies	84.298A	13340	77,652
Elementary Counseling Demo Program	84.215E	None	38,971
Title X - McKinney-Vento Homeless Assistance	84.196	24166	129,445
Indian Education	84.060	10011	340,851
Charter School Grant	84.282	03150	19,138
Title II, NCLB, Part A, Improving Teacher quality	84.367	14341	2,623,959
Title III - Immigrant Education Program	84.365	None	72,626
Title III - Limited English Proficiency	84.365	18004	975,610
Subtotal 84.365			<u>1,048,236</u>
Title II, Part B, CAMSP	84.318	14512	428,351
Title II, Part D, Technology	84.318	14334	696,729
Enhancing Education Through Technology	84.318	13285	260,283
Subtotal 84.318			<u>1,385,363</u>
Vocational Education - Carl Perkins Act, Sec 132	84.048	03573	453,711
Title IV - Safe and Drug-Free Schools	84.186	03453	447,341
Title IV - SDFS - Program Development	84.186	03452	704,465
Subtotal 84.186			<u>1,151,806</u>
Adult Education: Priority 1-3	84.002	13973	266,850
Adult Education: Priority 4, Family Literacy	84.002	13977	58,500
Adult Education: Priority 5, Adult Secondary Education	84.002	13978	22,275
Adult Education: English Literacy and Citizenship	84.002	14109	326,926
Subtotal 84.002			<u>674,551</u>
IDEA Part B (Special Education Cluster):			
Local Assistance	84.027	13379	6,139,031
Preschool Local Entitlement	84.027	13682	202,487
Federal Preschool	84.173	13430	352,738
Local Staff Development	84.027	13613	14,478
Pre-School Staff Development	84.173	13431	1,374
Early Intervention	84.181	13761	69,389
Infant Discretionary	84.027	24462	261,005
Low Incidence	84.027	24464	11,164
Workability I	84.027	13705	163,029
Subtotal Special Education Cluster			<u>7,214,695</u>
Direct:			
Emergency Response Plans for School Safety Initiative	84.184E	None	54,353
Twenty-first Century Community Learning Center	84.287	None	1,770,371
Total U.S. Department of Education			<u>36,154,755</u>

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed Through California Department of Health Services:			
Medi-Cal Option Billing	93.778	10013	314,489
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
Child Care and Adult	10.558	03529	13,243
National School Lunch	10.555	13390	<u>10,019,555</u>
Total U.S. Department of Agriculture			<u>10,032,798</u>
Total Expenditures of Federal Awards			<u>\$ 46,502,042</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 2005-06 was \$597,611.

STOCKTON UNIFIED SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>
June 30, 2006 Annual Financial and Budget Report Fund Balance	\$ 33,441,318
Audit adjustments:	
Increase in Lottery Revenue	<u>408,952</u>
June 30, 2006 Audited Financial Statement Fund Balance	<u>\$ 33,850,270</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, 2006

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, 2006.

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 *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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 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 condition is described in the accompanying Findings and Recommendations Section as item 06-1.

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 condition described above is not a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Findings and Recommendations Section as item 06-2.

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.

November 3, 2006



**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, 2006. 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.

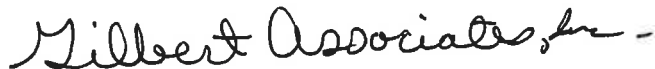
In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

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

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

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

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

GILBERT ASSOCIATES, INC.

November 3, 2006



**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, 2006, and have issued our report thereon dated November 3, 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 2005-06*, 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 For:		
School Districts	4	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	No ⁽¹⁾
Morgan Hart Class Size Reduction Program	7	Not Applicable
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

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

Description	Procedures in Controller's Audit Guide	Procedures Performed
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	Not Applicable
Lottery Funds:		
Proposition 20	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education	3	No ⁽¹⁾
Contemporaneous Records of Attendance, for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Not Applicable
Additional Nonclassroom-Based Instruction, for charter schools	1	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based, for charter schools	3	Not Applicable

⁽¹⁾ We did not perform testing for Independent Study, Community Day Schools and California School-Age Families Education because the ADA was under the level that requires testing.

⁽²⁾ School Accountability Report Card for 2005-06 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.

November 3, 2006

FINDINGS AND RECOMMENDATIONS SECTION

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

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 No
 Reportable conditions identified not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes No
 Reportable conditions identified not considered to be material weaknesses? Yes None Reported

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

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

Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027, 84.173, 84.181	Special Education Cluster
84.287	21 st Century Learning

Dollar threshold used to distinguish between Type A and Type B programs: \$1,395,061

Auditee qualified as low-risk auditee? Yes No

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

State Awards

Internal control over major programs:

Material weakness(es) identified?

Yes No

Reportable conditions identified not

considered to be material weaknesses?

Yes None Reported

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

Unqualified

STOCKTON UNIFIED SCHOOL DISTRICT

FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROLS – REPORTABLE CONDITIONS

06-1. CASH MANAGEMENT – CDDC #30000

Finding:

There is a lack of segregation of duties in the cash management function. One of the key staff involved with cash receipts collects the cash, prepares the bank deposit, prepares the cash receipt log, creates the cash receipts batch and posts the batch to the general ledger. The mitigating control of comparing the recorded cash to the listing of daily cash receipts, is not performed on a consistent basis, and therefore is not deemed to be an effective control.

Recommendation:

We recommend that, in order to provide proper segregation of duties in the cash management function, that the custody of cash be separated from the recording function. Without such segregation of duties, the District may not be able to determine that all cash receipts have been deposited in the bank and recorded in the general ledger.

District Response:

The District has created new procedures in which an independent reviewer performs a final reconciliation on the preparer's work.

SECTION III – STATE COMPLIANCE

06-2. INSTRUCTIONAL MATERIALS– PROP 20 LOTTERY - CDDC #40000

Finding:

There were two purchases of electronic equipment that are not allowable under Education Code (the Ed Code), section 60010. The Ed Code allows purchases of electronic instructional materials, such as software, but not the equipment to utilize the software. The total cost of the disallowed purchases was \$424.55, and represented a printer color cartridge and a computer power supply.

Recommendation:

We recommend that the District transfer the expenditures out of the Lottery instructional materials resource, and post in an unrestricted general ledger account.

District Response:

The District has changed the account code description for the lottery funds to ensure that department staff who post these expenditures, are more easily able to verify the appropriateness of the lottery fund expenditures.

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

Recommendation	Current Status	District Explanation If Not Implemented
SECTION II – FINANCIAL STATEMENT FINDINGS		
INTERNAL CONTROLS – REPORTABLE CONDITIONS		
05-1. ASSOCIATED STUDENT BODY – CDDC #30000 <p>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.</p> <p>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.</p>	Implemented	
05-2. ASSOCIATED STUDENT BODY – CDDC #30000 <p>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.</p> <p>The principal should ensure that the ASB bookkeeper performs a detailed reconciliation of cash receipts to sales, after the year-end inventory is taken.</p>	Implemented	

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2006

Recommendation	Current Status	District Explanation If Not Implemented
05-3. ASSOCIATED STUDENT BODY – CDDC #30000	Implemented	
<p>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.</p>		
<p>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</p>		
05-4. ASSOCIATED STUDENT BODY – CDDC #30000	Implemented	
<p>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.</p>		
<p>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.</p>		

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2006

Recommendation	Current Status	District Explanation If Not Implemented
SECTION III – STATE COMPLIANCE		
05-5. KINDERGARTEN CONTINUATION – AUGUST ELEMENTARY SCHOOL - CDDC #40000	Implemented	
<p>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.</p> <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 subsequently revised and resubmitted its P-2.</p>		
05-6. TEACHER CREDENTIALS #40000	Implemented	
<p>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.</p> <p>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.</p>		

STOCKTON UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2006

Recommendation	Current Status	District Explanation If Not Implemented
05-7. INSTRUCTIONAL MATERIALS #40000	Implemented	
<p>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.</p> <p>We recommend that in the future a separate determination be made by board resolution for science, laboratory materials, and foreign languages.</p>		
05-8. CAL-SAFE UNDERSTATEMENT OF ATTENDANCE #40000	Implemented	
<p>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.</p> <p>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.</p>		

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2006

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

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.

Implemented

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.

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