

STOCKTON UNIFIED SCHOOL DISTRICT
COUNTY OF SAN JOAQUIN
STOCKTON, CALIFORNIA
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007
AND
INDEPENDENT AUDITOR'S REPORT

STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2007

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STOCKTON UNIFIED SCHOOL DISTRICT

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STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2007

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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 Stockton Unified School District, as of and for the year ended June 30, 2007, which collectively comprise Stockton Unified School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Stockton Unified School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, 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 December 13, 2007 on our consideration of Stockton Unified School 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purposes of forming an opinion on the financial statements that collectively comprise Stockton Unified School District's basic financial statements. The accompanying financial and statistical information listed in the Table of Contents, including the Schedule of Expenditure of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Stockton Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
December 13, 2007



Management's Discussion and Analysis

An overview of Stockton Unified School District's financial activities for the fiscal year ended June 30, 2007, 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 2007 fiscal year was \$392.2 million. Expenditures totaled \$356.7 million. Net assets increased by \$35.5 million. This represents a 15.5% increase over the prior year.
- Capital assets, net of depreciation, increased by \$44.3 million. Projects completed during the fiscal year included the construction of Wilhelmina Henry, Richard Pittman, and Maxine Hong-Kingston Elementary Schools, the modernization of John C. Fremont Elementary School, and purchase of land for the Valentine Peyton Elementary School.
- Construction and modernization work continued at a number of district school sites. Total costs expended on project work in progress totaled \$44.7 million at the end of the fiscal year.
- Long-term debt increased by \$30.4 million due, in part, to the issuance of \$45.0 million in Certificates of Participation. These certificates were given a credit rating of "AAA." The proceeds from the sale of the certificates will be used for construction projects and the retirement of previously issues certificates of participation.

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:

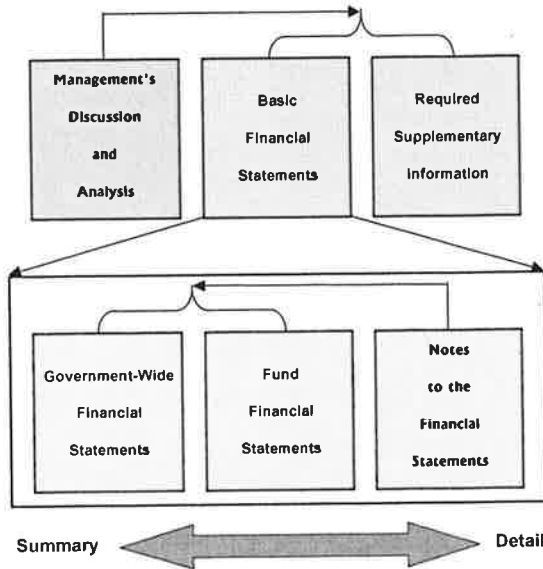
- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the district's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the district, reporting the district's 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 fund.

- *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 one internal service fund – the self-insurance 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 30, 2007 and 2006 is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2007	2006	
Current and other assets:			
Cash	\$ 146,018,274	\$ 123,849,709	\$ 22,168,565
Receivables	29,669,114	30,777,315	(1,108,201)
Inventories	1,390,253	1,383,892	6,361
Other current assets	3,084,805	2,124,032	960,773
Capital assets, net of depreciation	347,695,231	303,411,392	44,283,839
Total assets	527,857,677	461,546,340	66,311,337
Long-term debt outstanding	213,673,107	183,294,157	30,378,950
Other liabilities	50,262,157	49,799,596	462,561
Total liabilities	263,935,264	233,093,753	30,841,511
Net assets:			
Invested in capital assets, net of related debt	166,970,856	182,148,134	(15,177,278)
Restricted	91,077,075	44,611,919	46,465,156
Unrestricted	5,874,482	1,692,534	4,181,948
Total Net Assets	\$ 263,922,413	\$ 228,452,587	\$ 35,469,826

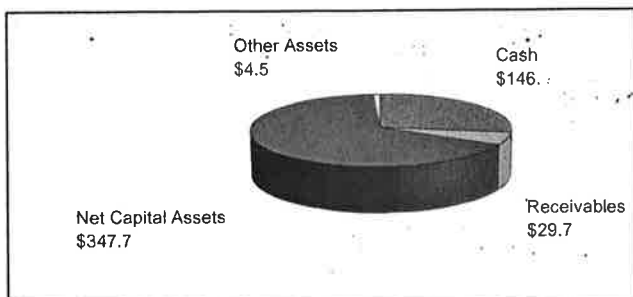
Total assets increased by \$66.3 million during the 2007 fiscal year. Capital assets, net of depreciation, increased by a total of \$44.3 million. Capital assets are discussed in more detail later in this Management Discussion and Analysis report.

Total liabilities increased by \$30.8 million. Of this total, long-term debt increased by \$30.4 million, primarily from the issuance of \$45.0 million in Certificates of Participation. Other liabilities increased by a total of \$.4 million. Other liabilities include accounts payable and deferred revenue. A discussion of the district's long-term debt is included later in this report.

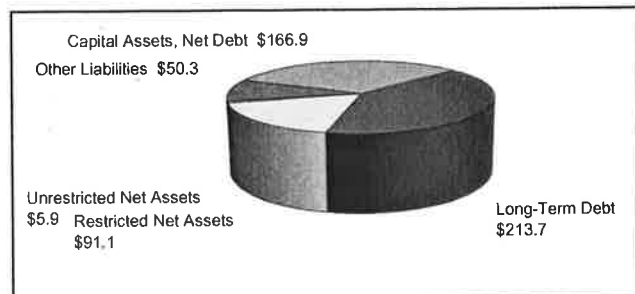
The difference between the \$66.3 million increase to Total assets and the \$30.8 million increase to Total liabilities results in a net \$35.5 million increase to Total Net Assets, a 15.5% change from the balance at June 30, 2006.

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

Assets by Category
(in millions)



Liabilities and Net Assets by Category
(in millions)

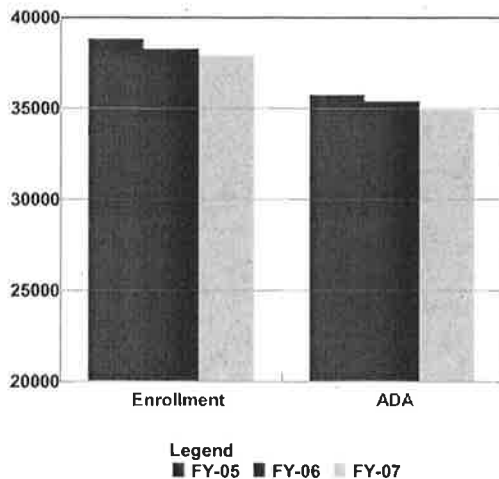


Changes in Net Assets

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

	Government-Wide Activities		Year Over Year Change
	2007	2006	
Revenues – Program:			
Charges for Services	\$ 4,035,627	\$ 3,684,721	\$ 350,906
Operating Grants and Contributions	129,223,667	115,532,051	13,691,616
Capital Grants and Contributions	9,908,485	7,138,724	2,769,761
Revenues – General:			
Unrestricted Federal and State Aid	183,301,959	173,835,510	9,466,449
Taxes Levied for General Purposes	36,841,472	36,700,956	140,516
Taxes Levied for Debt Service	11,572,628	6,130,428	5,442,200
Interest and Investment Earnings	6,075,332	3,667,316	2,408,016
Other General Revenues	11,277,741	11,622,378	(344,637)
Total Revenues	392,236,911	358,312,084	33,924,827
Expenses:			
Instruction	213,455,883	192,932,869	20,523,014
Pupil and Instructional Services	82,476,344	78,976,444	3,499,900
General Administration	15,350,325	13,896,157	1,454,168
Plant Services	35,411,879	31,272,496	4,139,383
Other Expenses	10,072,654	6,732,993	3,339,661
Total Expenses	356,767,085	323,810,959	32,956,126
Increase in Net Assets	35,469,826	34,501,125	968,701
Net Assets, Beginning of the Year	228,452,587	193,951,462	34,501,125
Net Assets, End of the Year	\$ 263,922,413	\$ 228,452,587	\$ 35,469,826

For the 2007 fiscal year, total district revenues were \$392.2 million. Total district expenses were \$356.7 million. The difference, \$35.5 million is the increase in net assets, bringing the total net assets at June 30, 2007 to \$263.9 million.



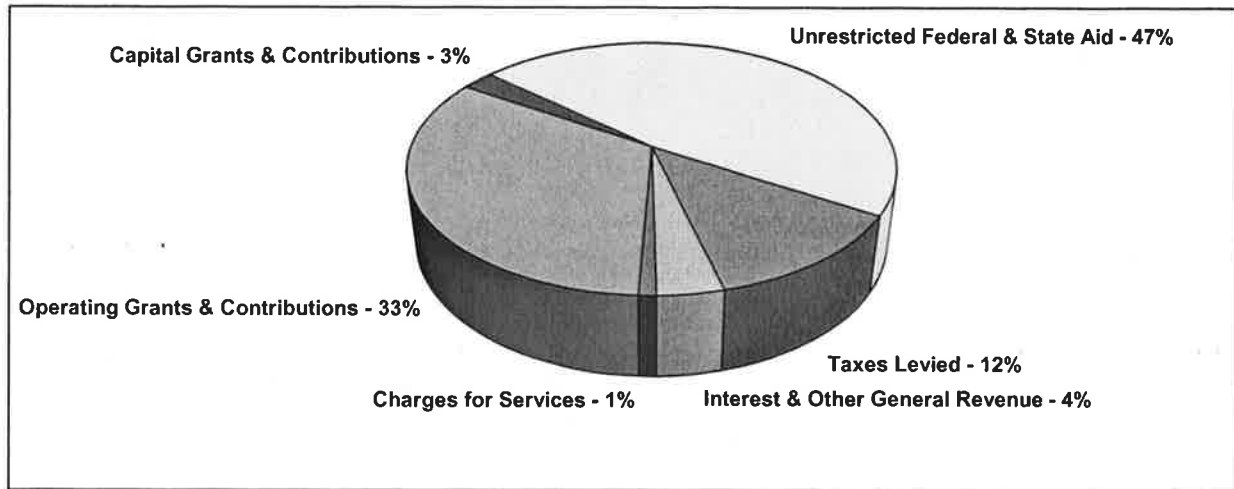
A main source of revenue for the district is the State Aid portion of the Revenue Limit, included in the Unrestricted Federal and State Aid total. The Revenue Limit is based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days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

District enrollment continued to decline during the fiscal year, a trend being experienced by more than half the public school districts in California. The graph to the left shows the decline in second month enrollment and Period 2 (P-2) ADA for fiscal years 2005, 2006, and 2007. Total second month enrollment in Grades K – 12 for the 2007 fiscal year was 37,914 students, a decrease of 381 students from the prior year. The primary area of enrollment decline was at the elementary school level (Grades K – 7), where enrollment decreased by 318 students.

P-2 ADA has also declined. For the 2007 fiscal year, the P-2 ADA totaled 34,936, a decrease of 477 ADA from the prior fiscal year.

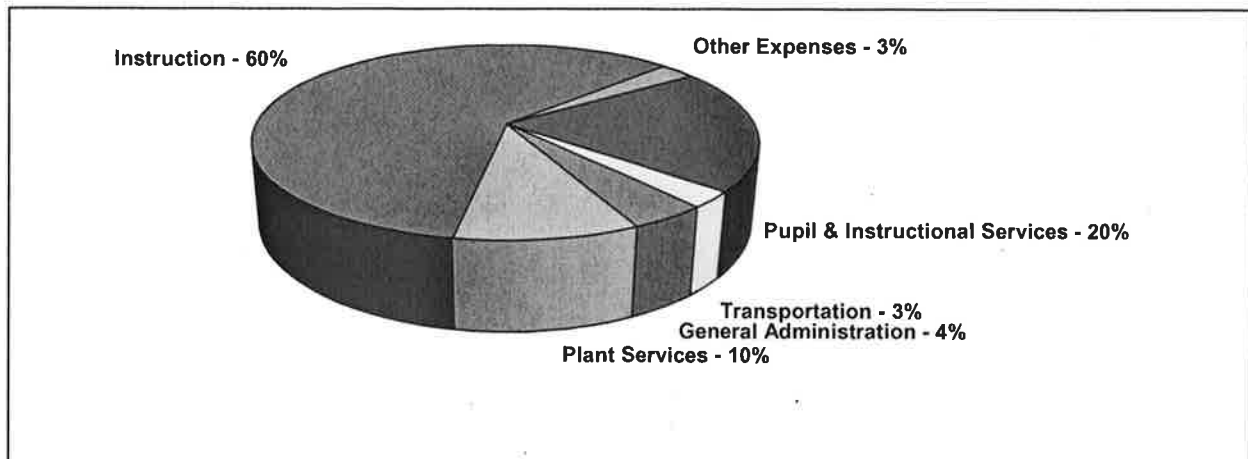
The following graph displays the district's revenue sources by percentage.

Revenue Sources by Percentage



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

Functional Expenditures by Percentage



Governmental Activities

Governmental Activities Expenditures

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction, Instruction-related Services and Pupil Services	\$ 295,932,227	\$ 271,909,313	\$ 160,516,211	\$ 152,287,190
General Administrative and Plant Services	49,773,806	44,659,966	42,580,012	38,589,682
Ancillary Services	988,398	508,687	897,817	424,795
Totals	\$ 346,694,431	\$ 317,077,966	\$ 203,994,040	\$ 191,301,667

This table displays by function the total and net cost of services provided for the 2007 and 2006 fiscal years. 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, 2007, the district had fourteen governmental funds reporting a combined fund balance of \$124.6 million, an increase of \$20.7 million over the prior year. Of these funds, eight had revenues that exceeded expenditures in 2007, 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
	2007	2006	
General Fund	\$ 49,513,508	\$ 33,850,270	\$ 15,663,238
Charter Schools Special Revenue Fund	123,136	179,854	(56,718)
Adult Education Fund	6,317,251	4,970,607	1,346,644
Child Development Fund	197,367	194,063	3,304
Cafeteria Special Revenue Fund	1,746,447	1,188,893	557,554
Deferred Maintenance Fund	2,301,731	1,775,998	525,733
Building Fund	8,810,587	41,965,498	(33,154,911)
Capital Facilities Fund	43,653,011	6,150,309	37,502,702
County School Facilities Fund	9,196	8,664	532
Special Reserve for Capital Outlay Projects	1,154,836	4,579,618	(3,424,782)
Capital Proj. Fund for Blended Component Units	2,078,228	2,623,428	(545,200)
Bond Interest and Redemption Fund	4,314,426	891,533	3,422,893
Tax Override Fund	16,209	17,276	(1,067)
Debt Service Fund	4,341,627	5,430,895	(1,089,268)
Totals	\$ 124,577,560	\$ 103,826,906	\$ 20,750,654

General Fund Budgetary Highlights

The district's 2007 General Fund operating budget was adopted by the Governing Board in June of 2006. As adopted, projected revenues totaled \$307.1 million. Budgeted expenditures totaled \$294.5 million, with revenues projected to exceed expenditures by approximately \$12.6 million.

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

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

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

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Revenue:			
Revenue Limit	\$ 198,741,816	\$ 200,786,955	\$ (2,045,139)
Federal Revenue	34,869,927	53,958,232	(19,088,305)
Other State Revenue	91,645,595	86,726,983	4,918,612
Other Local Revenue	8,896,600	11,078,418	(2,181,818)
Transfers In/Other Sources	848,929	0	848,929
Total Revenue	\$ 335,002,867	\$ 352,550,588	\$ (17,547,721)

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Expenditures:			
Certificated Salaries	\$ 154,924,070	\$ 159,967,366	\$ (5,043,296)
Classified Salaries	47,838,369	51,094,674	(3,256,305)
Employee Benefits	62,629,829	65,687,223	(3,057,394)
Books and Supplies	18,850,351	55,039,930	(36,189,579)
Services, Other Operating Expenses	30,283,577	35,378,255	(5,094,678)
Capital Outlay	914,225	712,002	202,223
Other Outgo/ Direct Support/Indirect Costs	2,364,737	1,609,551	755,186
Transfers Out/Other Uses	1,534,471	1,793,147	(258,676)
Total Expenditures	\$ 319,339,629	\$ 371,282,148	\$ (51,942,519)

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 \$2.0 million less than budget due to lower than expected ADA.
- Federal revenue was \$19.1 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.
- Actual revenue for various state programs was \$4.9 million greater than budget, including \$1.0 million for Special Education, \$2.2 million for Economic Impact Aid, and \$1.6 million for Mandated Cost Reimbursements.
- Other local revenue was \$2.2 million less than budget due to miscellaneous adjustments.

Expenditures

- The salaries of certificated and classified personnel were \$8.3 million less than budget due to pending negotiations with the district's bargaining units.
- The cost for Employee benefits was \$3.1 million less than budget due to employee salaries being less than originally anticipated.
- The books and supplies expenditure category was \$36.2 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 \$5.1 million lower than budget. Amounts budgeted for contracted services on projects not completed at year-end have been carried forward to the following year.
- The combined totals for the Capital Outlay, Other Outgo/Direct Support/Indirect Costs, and Transfers Out/Other Uses categories were \$0.7 million lower than budget due to miscellaneous adjustments.

The table below displays actual General Fund revenue by major category for fiscal year 2007, along with the increase or decrease to fiscal year 2006 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

	General Fund			
	FY-2007 Actual	Percent Of Total	Increase (Decrease) from FY-2006	Percent Increase or (Decrease)
Revenues:				
Revenue Limit	\$ 198,741,816	59.48%	\$ 10,039,549	5.32%
Federal Revenue	34,869,927	10.43%	(877,831)	(2.46)%
Other State Revenue	91,645,595	27.43%	16,301,947	21.64%
Other Local Revenue	8,896,600	2.66%	990,434	12.53%
Total Revenues	\$ 334,153,938	100.00%	\$ 26,454,099	8.60%

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-2007 Actual	Percent Of Total	Increase (Decrease) from FY-2006	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	\$ 154,924,070	48.75%	\$ 9,197,875	6.31%
Classified Salaries	47,838,369	15.05%	2,036,415	4.45%
Employee Benefits	62,629,829	19.71%	5,383,750	9.40%
Books and Supplies	18,850,351	5.93%	6,919,077	57.99%
Services, Other Operating Expenses	30,283,577	9.53%	3,591,210	13.45%
Capital Outlay	914,225	0.29%	147,747	19.28%
Other Outgo/Dir. Supp./Indir. Costs	2,364,737	0.74%	1,094,771	86.20%
Total Expenditures	\$ 317,805,158	100.00%	\$ 28,370,845	9.80%

The District's financial condition was tested during the 2007 fiscal year because of declining enrollment and the uncertain 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	
	2007	2006
Land	\$ 21,169,097	\$ 14,926,757
Improvement of Sites	2,131,543	1,557,418
Buildings	273,838,997	200,810,268
Equipment	5,816,787	3,608,373
Construction in Progress	44,738,807	82,508,576
Totals	\$ 347,695,231	\$ 303,411,392

Capital assets in the table above are reflected at June 30, 2007 and 2006, net of depreciation. The district uses a capitalization threshold of \$50,000. 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 \$44.3 million during the year. Major capital asset projects completed during the year include the following:

✓ Land purchase	Valentine Peyton Elementary	\$ 6.2 million
✓ Construction	Wilhelmina Henry Elementary	\$28.2 million
✓ Construction	Richard Pittman Elementary	\$24.7 million
✓ Construction	Maxine Hong-Kingston Elementary	\$18.5 million
✓ Modernization	John C. Fremont Elementary	\$ 6.8 million

A total of \$44.7 million has been expended on projects still in the construction phase. This includes construction work on the Alex G. Spanos and Valentine Peyton Elementary Schools and costs involving the reconfiguration of district elementary schools to serve students from Kindergarten through Grade 8.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2007	2006
General Obligation Bonds	\$ 135,103,228	\$ 137,325,782
Certificates of Participation	57,082,086	25,466,956
Qualified Zone Academic Bonds Payable	6,635,000	6,635,000
Lighting Retrofit Payable	1,404,555	1,786,560
State School Building Loan Payable	3,618	5,715
Compensated Absences	3,490,598	3,357,173
Other Postretirement Benefits	7,806,729	5,952,001
Capital Leases	2,147,293	2,764,970
Totals	\$ 213,673,107	\$ 183,294,157

Outstanding debt increased by a net amount of \$30.4 million during the fiscal year. This increase primarily results from the issuance of \$45.0 million in Certificates of Participation. Standard and Poor's issued a credit rating of "AAA" to these certificates, the highest rating given by this company. The funds received from the sale will be used for construction projects and the retirement of previously issued certificates of participation.

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

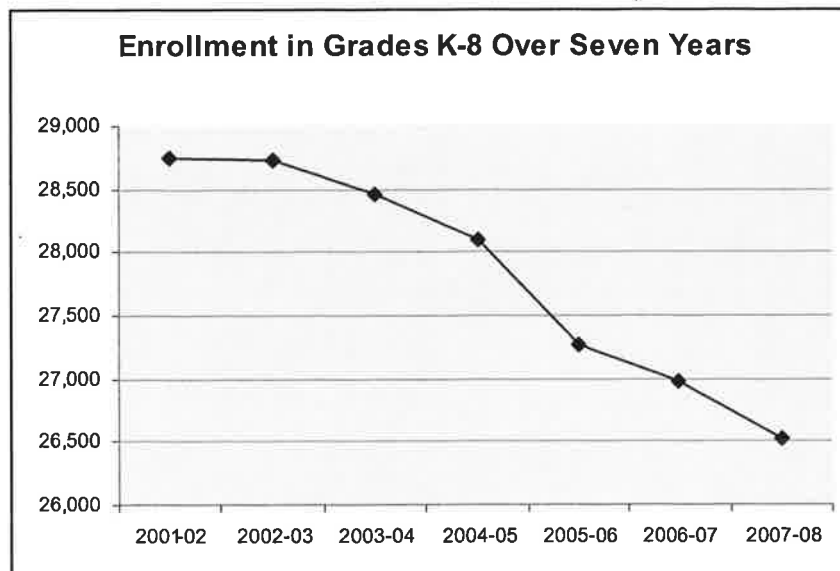
The 2007-08 Stockton Unified School District budget was developed with all components of the proposal presented by the Governor in January and any applicable May Revise adjustments. Critical budget assumptions included were:

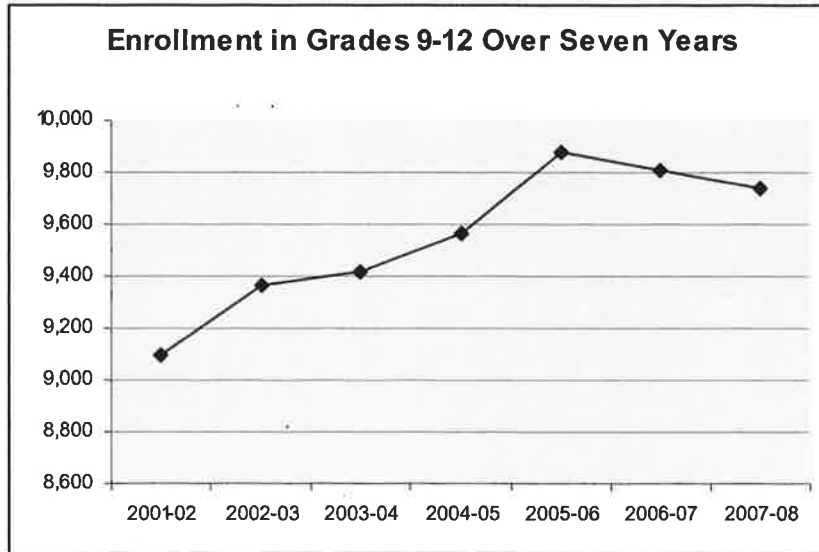
- Cost of Living Adjustment (COLA) of 4.53% for both the revenue limit and state program revenues.
- Staffing ratios used in computing required school site personnel.
- Step and Column movement on the salary schedule included.
- Retiree benefits budgeted with known rate increases

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: 4.3% for 2008-09 and 2.5% for 2009-10. 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.

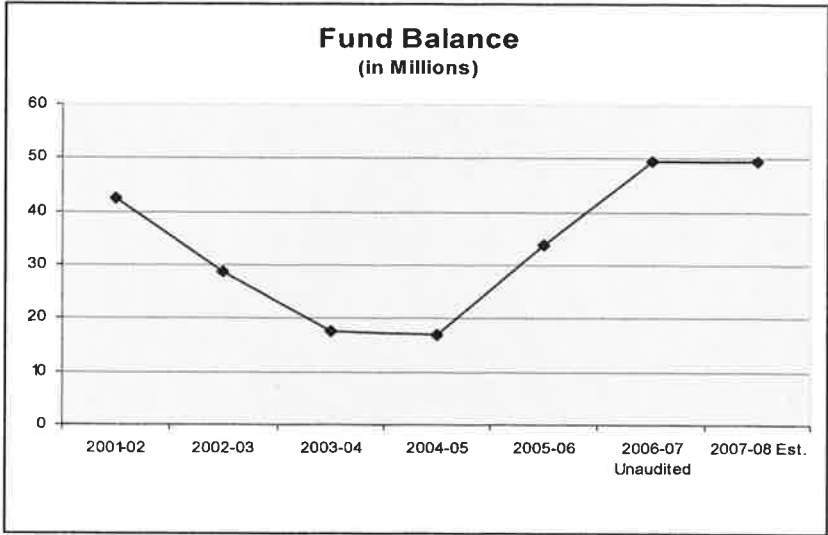
Health Rates

The cost of health care is expected to increase over the next few years. The district has established a health benefits allowance for 2007-08; 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 \$6.5 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 fund balance estimate for FY 2007-08 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.

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 146,018,274
Accounts receivable	29,669,114
Prepaid expenditures	3,084,805
Stores inventory	1,390,253
Capital assets, net of accumulated depreciation (Note 4)	<u>347,695,231</u>
Total assets	<u>527,857,677</u>
LIABILITIES	
Accounts payable	13,290,628
Claims liability (Note 5)	25,758,727
Deferred revenue	11,212,802
Long-term liabilities (Note 6):	
Due within one year	6,767,727
Due after one year	<u>206,905,380</u>
Total liabilities	<u>263,935,264</u>
NET ASSETS	
Invested in capital assets, net of related debt	166,970,856
Restricted (Note 7)	91,077,075
Unrestricted	<u>5,874,482</u>
Total net assets	<u>\$ 263,922,413</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
					<u>Governmental Activities</u>
Governmental activities (Note 4):					
Instruction	\$ 213,455,883	\$ 1,751,704	\$ 79,245,404	\$ 9,908,485	\$ (122,550,290)
Instruction-related services:					
Supervision of instruction	17,209,320	46,048	11,051,991		(6,111,281)
Instructional library, media and technology	2,220,729		1,715,283		(505,446)
School site administration	22,387,609	292,782	3,767,915		(18,326,912)
Pupil services:					
Home-to-school transportation	9,574,400	6,822	5,257,999		(4,309,579)
Food services	12,817,274	1,676,774	11,470,676		330,176
All other pupil services	18,267,012	75,186	9,148,947		(9,042,879)
General administration:					
Data processing	3,058,080				(3,058,080)
All other general administration	11,297,302	111,371	3,432,240		(7,753,691)
Plant services	35,411,879	28,640	3,621,543		(31,761,696)
Ancillary services	988,398		90,581		(897,817)
Enterprise activities	6,545				(6,545)
Other outgo	1,580,425	46,300	421,088		(1,113,037)
Interest on long-term liabilities	8,089,010				(8,089,010)
Unallocated depreciation	403,219				(403,219)
	<u>\$ 356,767,085</u>	<u>\$ 4,035,627</u>	<u>\$ 129,223,667</u>	<u>\$ 9,908,485</u>	<u>(213,599,306)</u>
Total governmental activities					
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					36,841,472
Taxes levied for debt service					11,572,628
Taxes levied for other specific purposes					1,166,756
Federal and state aid not restricted to specific purposes					183,301,959
Interest and investment earnings					6,075,332
Interagency revenues					707,980
Miscellaneous					<u>9,403,005</u>
					<u>249,069,132</u>
Total general revenues					
					<u>35,469,826</u>
Change in net assets					
					228,790,709
Net assets, July 1, 2006 as previously reported					
					<u>(338,122)</u>
Restatement of net assets (Note 11)					
					<u>228,452,587</u>
Net assets, July 1, 2006 as restated					
					<u>\$ 263,922,413</u>
Net assets, June 30, 2007					

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

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2007

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>All Non-Major Funds *</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments:					
Cash in County Treasury	\$ 44,886,475	\$ 14,302,056	\$ 25,728,225	\$ 20,454,575	\$ 105,371,331
Cash on hand and in banks	2,171				2,171
Cash in revolving fund	70,000			2,260	72,260
Cash awaiting deposit				16,983	16,983
Cash with Fiscal Agent	1,595,891		17,372,438	4,278,967	23,247,296
Accounts receivable:					
Federal government	4,790,881			2,513,885	7,304,766
State government	15,814,713			575,672	16,390,385
Local government and other	4,813,000	234,059	322,276	380,005	5,749,340
Prepaid expenditures	504,002				504,002
Due from other funds	612,574		1,166,756	334,782	2,114,112
Stores inventory	1,106,383			283,870	1,390,253
	<u>\$ 74,196,090</u>	<u>\$ 14,536,115</u>	<u>\$ 44,589,695</u>	<u>\$ 28,840,999</u>	<u>\$ 162,162,899</u>
Total assets					
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,801,021	\$ 5,725,307	\$ 936,463	\$ 4,186,857	\$ 23,649,648
Deferred revenue	10,380,023			1,444,152	11,824,175
Due to other funds	1,501,538	221	221	609,536	2,111,516
	<u>24,682,582</u>	<u>5,725,528</u>	<u>936,684</u>	<u>6,240,545</u>	<u>37,585,339</u>
Total liabilities					
Fund balances	<u>49,513,508</u>	<u>8,810,587</u>	<u>43,653,011</u>	<u>22,600,454</u>	<u>124,577,560</u>
Total liabilities and fund balances	<u>\$ 74,196,090</u>	<u>\$ 14,536,115</u>	<u>\$ 44,589,695</u>	<u>\$ 28,840,999</u>	<u>\$ 162,162,899</u>

* Refer to pages 51 and 52.

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, 2007

Total fund balances - Governmental Funds		\$ 124,577,560
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$455,081,185 and the accumulated depreciation is \$107,385,954 (Note 4).		347,695,231
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2007 consisted of (Note 6):		
General Obligation Bonds	\$ (135,103,228)	
Certificates of Participation	(57,082,086)	
Capitalized lease obligations	(2,147,293)	
California Energy Commission Loan	(1,404,555)	
State School Building Loans	(3,618)	
Qualified Zone Academy Bonds	(6,635,000)	
Post-employment benefits	(7,806,729)	
Compensated absences	(3,490,598)	
		(213,673,107)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Net assets of the Self-Insurance Fund are:		4,057,461
In the governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(1,925,663)
In the governmental funds, revenue is recognized only to the extent it is available. 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.		611,373
Costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as assets in governmental funds.		2,579,558
Total net assets - governmental activities		\$ 263,922,413

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>All Non-Major Funds *</u>	<u>Total Governmental Funds</u>
Revenues:					
Revenue limit sources:					
State apportionment	\$ 161,900,344			\$ 5,964,418	\$ 167,864,762
Local sources	<u>36,841,472</u>				<u>36,841,472</u>
Total revenue limit	<u>198,741,816</u>			<u>5,964,418</u>	<u>204,706,234</u>
Federal sources	34,869,927			11,940,552	46,810,479
Other state sources	91,645,595			15,853,381	107,498,976
Other local sources	<u>8,896,600</u>	<u>\$ 1,324,218</u>	<u>\$ 8,084,709</u>	<u>15,586,370</u>	<u>33,891,897</u>
Total revenues	<u>334,153,938</u>	<u>1,324,218</u>	<u>8,084,709</u>	<u>49,344,721</u>	<u>392,907,586</u>
Expenditures:					
Certificated salaries	154,924,070			5,070,455	159,994,525
Classified salaries	47,838,369		58,339	6,055,017	53,951,725
Employee benefits	62,629,829		7,096	4,288,233	66,925,158
Books and supplies	18,850,351	179,379	150,036	6,377,324	25,557,090
Contract services and operating expenditures	30,283,577	361,417	1,837,695	2,577,841	35,060,530
Capital outlay	914,225	33,938,333	1,029,466	14,601,132	50,483,156
Other outgo	1,296,285				1,296,285
Debt service:					
Principal retirement	981,040		13,287,646	2,746,332	17,015,018
Interest	<u>87,412</u>		<u>578,785</u>	<u>6,510,878</u>	<u>7,177,075</u>
Total expenditures	<u>317,805,158</u>	<u>34,479,129</u>	<u>16,949,063</u>	<u>48,227,212</u>	<u>417,460,562</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,348,780</u>	<u>(33,154,911)</u>	<u>(8,864,354)</u>	<u>1,117,509</u>	<u>(24,552,976)</u>
Other financing sources (uses):					
Operating transfers in	595,299		1,317,056	11,442,956	13,355,311
Operating transfers out	(1,534,471)			(11,820,840)	(13,355,311)
Proceeds from the issuance of long-term liabilities	<u>253,630</u>		<u>45,050,000</u>		<u>45,303,630</u>
Total other financing sources (uses)	<u>(685,542)</u>		<u>46,367,056</u>	<u>(377,884)</u>	<u>45,303,630</u>
Change in fund balances	15,663,238	(33,154,911)	37,502,702	739,625	20,750,654
Fund balances, July 1, 2006	<u>33,850,270</u>	<u>41,965,498</u>	<u>6,150,309</u>	<u>21,860,829</u>	<u>103,826,906</u>
Fund balances, June 30, 2007	<u>\$ 49,513,508</u>	<u>\$ 8,810,587</u>	<u>\$ 43,653,011</u>	<u>\$ 22,600,454</u>	<u>\$ 124,577,560</u>

* Refer to pages 53 and 54.

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

STOCKTON UNIFIED SCHOOL DISTRICT

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

For the Year Ended June 30, 2007

Net change in fund balances - Total Governmental Funds	\$ 20,750,654
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 4).	\$ 50,299,178
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(8,535,339)
In governmental funds, donated capital assets are not reported because they do not reflect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets (Note 4).	2,520,000
Issuance of long-term liabilities is an other financing source in the governmental funds, but increases the long-term liabilities in the statement of net assets (Note 6).	(45,303,630)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 6).	17,015,018
Issuance costs and discounts related to the issuance of long-term liabilities is an expenditure in the governmental funds. Debt issue premiums are recognized as other financing sources in the governmental funds. In the government-wide statements, debt issue costs, discounts and premiums are amortized over the life of the related debt. Net costs, discounts and premiums are:	591,659
In the governmental funds, revenue is recognized only to the extent it is available. 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.	(3,252,706)
In governmental funds, interest on long-term liabilities 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.	(729,365)

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

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

(Continued)

For the Year Ended June 30, 2007

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost recovery basis. The change in net assets for the Self-Insurance Fund was:

\$ 4,102,510

In the statement of activities, expenses related to post-employment benefits and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).

(1,988,153) \$ 14,719,172

Change in net assets of governmental activities

\$ 35,469,826

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

STOCKTON UNIFIED SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET (NON-GAAP) AND ACTUAL**

MAJOR FUND - GENERAL FUND

For the Year Ended June 30, 2007

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 165,857,307	\$ 164,607,510	\$ 161,900,344	\$ (2,707,166)
Local sources	<u>34,568,371</u>	<u>35,329,400</u>	<u>36,841,472</u>	<u>1,512,072</u>
Total revenue limit	<u>200,425,678</u>	<u>199,936,910</u>	<u>198,741,816</u>	<u>(1,195,094)</u>
Federal sources	33,531,037	50,312,965	34,869,927	(15,443,038)
Other state sources	64,785,784	97,373,014	91,645,595	(5,727,419)
Other local sources	<u>8,314,333</u>	<u>11,214,108</u>	<u>8,896,600</u>	<u>(2,317,508)</u>
Total revenues	<u>307,056,832</u>	<u>358,836,997</u>	<u>334,153,938</u>	<u>(24,683,059)</u>
Expenditures:				
Certificated salaries	145,309,459	160,504,115	154,924,070	5,580,045
Classified salaries	46,063,141	50,984,403	47,838,369	3,146,034
Employee benefits	57,136,192	65,827,369	62,629,829	3,197,540
Books and supplies	18,331,000	60,212,316	18,850,351	41,361,965
Contract services and operating expenditures	24,504,767	37,950,568	30,283,577	7,666,991
Capital outlay	197,110	1,075,911	914,225	161,686
Other outgo	1,167,373	1,062,927	1,296,285	(233,358)
Debt service:				
Principal retirement	927,538	903,837	981,040	(77,203)
Interest	<u>137,773</u>	<u>106,798</u>	<u>87,412</u>	<u>19,386</u>
Total expenditures	<u>293,774,353</u>	<u>378,628,244</u>	<u>317,805,158</u>	<u>60,823,086</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,282,479</u>	<u>(19,791,247)</u>	<u>16,348,780</u>	<u>36,140,027</u>
Other financing sources (uses):				
Operating transfers in	543,391	628,520	595,299	(33,221)
Operating transfers out	(1,271,676)	(1,793,147)	(1,534,471)	258,676
Proceeds from capitalized lease obligations		<u>253,630</u>	<u>253,630</u>	
Total other financing sources (uses)	<u>(728,285)</u>	<u>(910,997)</u>	<u>(685,542)</u>	<u>225,455</u>
Change in fund balance	12,554,194	(20,702,244)	15,663,238	36,365,482
Fund balance, July 1, 2006	<u>33,850,270</u>	<u>33,850,270</u>	<u>33,850,270</u>	
Fund balance, June 30, 2007	<u>\$ 46,404,464</u>	<u>\$ 13,148,026</u>	<u>\$ 49,513,508</u>	<u>\$ 36,365,482</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
SELF-INSURANCE FUND

June 30, 2007

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 17,108,233
Cash with Fiscal Agent	200,000
Accounts receivable:	
Local government and other	224,623
Prepaid expenditures	<u>1,245</u>
 Total assets	 <u>17,534,101</u>

LIABILITIES

Accounts payable	183,416
Claims liability	13,290,628
Due to other funds	<u>2,596</u>
 Total liabilities	 <u>13,476,640</u>

NET ASSETS

Restricted	<u>\$ 4,057,461</u>
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The accompanying notes are an integral
part of these financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET ASSETS - PROPRIETARY FUND

SELF-INSURANCE FUND

For the Year Ended June 30, 2007

Operating revenues:	
Self-insurance premiums	\$ 10,714,712
Other local revenues	<u>2,588</u>
Total operating revenues	<u>10,717,300</u>
Operating expenses:	
Classified salaries	150,627
Employee benefits	61,832
Books and supplies	41,192
Contract services	<u>7,123,437</u>
Total operating expenses	<u>7,377,088</u>
Operating income	3,340,212
Non-operating income:	
Interest income	<u>762,298</u>
Change in net assets	4,102,510
Total net assets, July 1, 2006	<u>(45,049)</u>
Total net assets, June 30, 2007	<u><u>\$ 4,057,461</u></u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND

For the Year Ended June 30, 2007

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 10,717,300
Cash paid for employee benefits	(4,242,279)
Cash paid for other expenses	<u>(3,627,988)</u>
Net cash provided by operating activities	<u>2,847,033</u>
Cash flows provided by investing activities:	
Interest income received	<u>690,767</u>
Increase in cash and cash equivalents	3,537,800
Cash and cash equivalents, July 1, 2006	<u>13,770,433</u>
Cash and cash equivalents, June 30, 2007	<u>\$ 17,308,233</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 3,340,212</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in:	
Prepaid expenses	(1,245)
Decrease in:	
Accounts payable	(488,850)
Amount due to other funds	<u>(3,084)</u>
Total adjustments	<u>(493,179)</u>
Net cash provided by operating activities	<u>\$ 2,847,033</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS

June 30, 2007

	Trust Funds			Agency Fund	
	Retiree Benefits Trust	Scholar- ship Trust	Trust Total	Student Body Funds	Total
ASSETS					
Cash and investments (Note 2):					
Cash in County Treasury	\$ 368,137		\$ 368,137		\$ 368,137
Cash on hand and in banks		\$ 862,668	862,668	\$ 816,829	1,679,497
Accounts receivable:					
Local government and other	<u>93,310</u>		<u>93,310</u>		<u>93,310</u>
Total assets	<u>461,447</u>	<u>862,668</u>	<u>1,324,115</u>	<u>816,829</u>	<u>2,140,944</u>
LIABILITIES					
Due to student groups				<u>816,829</u>	<u>816,829</u>
NET ASSETS					
Restricted (Note 7)	<u>\$ 461,447</u>	<u>\$ 862,668</u>	<u>\$ 1,324,115</u>	<u>\$ -</u>	<u>\$ 1,324,115</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Year Ended June 30, 2007

	<u>Retiree Benefits Trust</u>	<u>Scholarship Trust</u>	<u>Total</u>
Revenues:			
Other local sources	\$ 4,722,126	\$ 70,970	\$ 4,793,096
Expenditures:			
Contract services and operating expenditures	<u>4,598,801</u>	<u>55,388</u>	<u>4,654,189</u>
Change in net assets	123,325	15,582	138,907
Net assets, July 1, 2006	<u>338,122</u>	<u>847,086</u>	<u>1,185,208</u>
Net assets, June 30, 2007	<u>\$ 461,447</u>	<u>\$ 862,668</u>	<u>\$ 1,324,115</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stockton Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California 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 and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District, Stockton Unified School District Community Facilities District No. 1 (the "CFD") and Stockton Unified School District Financing Corporation (the "Corporation") have a financial and operational relationship which meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the CFD and the Corporation as component units of the District. Therefore, the financial activities of the CFD and the Corporation have been included in the basic financial statements of the District.

The following are those aspects of the relationship between the District, the CFD and the Corporation which satisfy GASB Statement No. 14 criteria:

A - Manifestations of Oversight

1. The CFD's and Corporation's Board of Directors were appointed by the District's Board of Education.
2. The Corporation has no employees. The District's Superintendent and Assistant Superintendent/Chief Financial Officer function as agents of the Corporation. Neither individual received additional compensation for work performed in this capacity.
3. The District exercises significant influence over operations of the CFD and the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the CFD and the Corporation.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the CFD and the Corporation must have the consent of the District.
2. Any deficits incurred by the CFD and the Corporation will be reflected in the lease payments of the District. Any surpluses of the CFD and the Corporation revert to the District at the end of the lease period.
3. It is anticipated that the District's lease payments will be the sole revenue source of the CFD and the Corporation.
4. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the CFD and the Corporation.

C - Scope of Public Service and Financial Presentation

1. The CFD and the Corporation were created for the sole purpose of financially assisting the District.
2. The CFD is a legally-constituted governmental entity, established under the authority of the Mello-Roos Community Facilities Act of 1982. The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The CFD and the Corporation were formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion the District intends to occupy all CFD and the Corporation facilities. When the CFD's and the Corporation's long-term liabilities have been paid with state reimbursements and the District's developer fees, title of all CFD and the Corporation property will pass to the District for no additional consideration.
3. The CFD's financial activity is presented in the financial statements as the Mello-Roos Fund. The Corporation's financial activity is presented in the financial statements as the Capital Facilities Fund.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure and a change in the fund financial statements to focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets and the Statement of Change in Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - 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 three broad categories which, in aggregate, include seven fund types as follows:

A - Governmental Fund Types

1. General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

2. Special Revenue Funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This classification includes the Charter School, Adult Education, Child Development, Cafeteria and Deferred Maintenance Funds.

3. Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of capital facilities by the District. This classification includes the Building, Capital Facilities, County School Facilities, Special Reserve and Mello-Roos Funds.

4. Debt Service Funds:

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This classification includes the Bond Interest and Redemption, Tax Override and Debt Service Funds.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

B - Proprietary Funds

1. Self-Insurance Fund:

The Self-Insurance Fund is an Internal Service Fund used to account for services rendered on a cost-reimbursement basis within the District. The Self-Insurance Fund is used to provide workers' compensation, dental and vision benefits to employees of the District.

C - Fiduciary Funds

1. Trust Funds:

The District maintains two Trust Funds. The Retiree Benefits Trust Fund and the Scholarship Trust Fund are Trust Funds used to account for assets held by the District as Trustee.

2. Agency Funds:

Student Body Funds:

Student Body Funds are used to account for revenues and expenditures of the various student body organizations. All cash activity, assets and liabilities of the various student bodies of the District are accounted for in Student Body Funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting

By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

The District employs budget control by major object code and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. The budgets are revised during the year by the Board of Education to provide for unanticipated revenues and expenditures. The originally adopted and final revised budgets for the General Fund are presented in the basic financial statements.

Stores Inventory

Inventories in the General and Cafeteria Funds are valued at average cost. Inventory recorded in the General and Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

Cafeteria Food Purchases

Cafeteria purchases include food purchased through the State of California Office of Surplus Property, for which the District is required to pay only a handling charge. The state does not require the Cafeteria Fund to record the fair market value of these commodities. The expenditures for these items would have been greater had the District paid fair market value for the government surplus food commodities.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$50,000 or more, are recorded 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 outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 50 years depending on asset types.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences totaling \$3,490,598 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as a operating expenditure or expense 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 for certain STRS and CalPERS employees, when the employee retires.

Deferred Revenue

Revenue from federal, state, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenditures and stores inventory reflect the portions of net assets represented by revolving cash fund, prepaid expenditures and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues and state programs represent programs where the revenue received is restricted for expenditures only in that particular program. The restriction for special revenues represents the portion of net assets restricted for special purposes. The restriction for debt service repayments represents the portion of net assets which the District plans to expend on debt repayment. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for self insurance represents the portion of net assets restricted for paying insurance premiums. The restriction for retiree benefits represents the portion of net assets which will be used for payment of health insurance premiums for current and future retirees. The restriction for scholarships represents the portion of net assets to be used to provide financial assistance to students of the District.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of January 1. Taxes are due in two installments on or before November 15 and March 15. Unsecured property taxes are due in one installment on or before August 31. The County of San Joaquin bills and collects taxes for the District. Tax revenues are recognized by the District when received.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

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

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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. Accordingly, actual results may differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2007 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>			<u>Fiduciary Activities</u>
	<u>Governmental Funds</u>	<u>Proprietary Fund</u>	<u>Total</u>	
Pooled Funds:				
Cash in County Treasury	\$ 105,371,331	\$ 17,108,233	\$ 122,479,564	\$ 368,137
Cash awaiting deposit	<u>16,983</u>		<u>16,983</u>	
Total pooled funds	<u>105,388,314</u>	<u>17,108,233</u>	<u>122,496,547</u>	<u>368,137</u>
Deposits:				
Cash on hand and in banks	2,171		2,171	1,679,497
Cash in revolving fund	<u>72,260</u>		<u>72,260</u>	
Total deposits	<u>74,431</u>		<u>74,431</u>	<u>1,679,497</u>
Investments:				
Cash with Fiscal Agent	<u>23,247,296</u>	<u>200,000</u>	<u>23,447,296</u>	
Total cash and investments	<u>\$ 128,710,041</u>	<u>\$ 17,308,233</u>	<u>\$ 146,018,274</u>	<u>\$ 2,047,634</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS (Continued)

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Joaquin County Treasury. The County pools these funds with those of school districts in the County and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the San Joaquin County Treasurer may invest in derivative securities. However, at June 30, 2007, the San Joaquin County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk - Deposits

Cash balances held in banks and revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). As of June 30, 2007, the carrying amount of the District's accounts were \$1,753,928, and the bank balances were \$1,893,669. Of the bank balances, \$200,000 was covered by the FDIC insurance and \$1,693,669 was uninsured. Uninsured balances are fully collateralized by the banks in accordance with applicable law.

Investments

The Cash with Fiscal Agent represents Debt proceeds that have been set aside for capital asset expenditures and the repayment of long-term liabilities. These amounts are held by a third party custodian in the District's name.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2007, the District had no concentration of credit risk.

3. INTERFUND TRANSACTIONS

Interfund Activity

Transactions between funds of the District are recorded as interfund transfers, except for the Self-Insurance Fund activity which is recorded as income and expenditures of the Self-Insurance Fund and the funds which incur payroll costs, respectively. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2007 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 612,574	\$ 1,501,538
Building		221
Capital Facilities	1,166,756	221
Non-Major Funds:		
Charter School	186,300	56,242
Adult Education	1,343	2,509
Child Development	676	146,765
Cafeteria	46,463	404,020
Special Reserve	100,000	
Proprietary Funds:		
Self-Insurance		<u>2,596</u>
Totals	<u>\$ 2,114,112</u>	<u>\$ 2,114,112</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

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

Interfund transfers for the 2006-2007 fiscal year were as follows:

Transfer from the General Fund to the Deferred Maintenance Fund for the required state match.	\$ 1,534,471
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Fund for construction projects.	9,908,485
Transfer from the Cafeteria Fund to the General Fund for indirect support.	402,225
Transfer from the Adult Education Fund to the General Fund for indirect support.	83,786
Transfer from the Child Development Fund to the General Fund for indirect support.	109,288
Transfer from the Debt Service Fund to the Capital Facilities Fund in connection with the issuance of 2007 Refunding Certificates of Participation.	<u>1,317,056</u>
	<u><u>\$ 13,355,311</u></u>

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2007 is shown below:

	Balance July 1, 2006	Transfers and Additions	Transfers and Deductions	Balance June 30, 2007
<u>Governmental Activities</u>				
Land	\$ 14,926,757	\$ 6,242,340		\$ 21,169,097
Buildings	290,700,511	80,791,231		371,491,742
Equipment	10,150,180	2,855,939	\$ 230,000	12,776,119
Site Improvements	4,205,983	699,437		4,905,420
Work-in-process	82,508,576	49,749,174	87,518,943	44,738,807
Totals, at cost	402,492,007	140,338,121	87,748,943	455,081,185
Less accumulated depreciation:				
Buildings	(89,890,243)	(7,762,502)		(97,652,745)
Site Improvements	(2,648,565)	(125,312)		(2,773,877)
Equipment	(6,541,807)	(647,525)	(230,000)	(6,959,332)
Total accumulated depreciation	(99,080,615)	(8,535,339)	(230,000)	(107,385,954)
Capital assets, net	<u>\$ 303,411,392</u>	<u>\$ 131,802,782</u>	<u>\$ 87,518,943</u>	<u>\$ 347,695,231</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 7,856,364
Home to School	43,357
Food Services	22,850
All other general administration	152,496
Plant services	57,053
Unallocated	<u>403,219</u>
Total depreciation expense	<u><u>\$ 8,535,339</u></u>

5. RISK MANAGEMENT/CLAIMS LIABILITIES

The District has established a Self-Insurance Fund to account for employee vision benefits, employee dental benefits and workers' compensation plans. The employee vision and dental plans are self insured and contract with a third party administrator for benefits processing. Until July 31, 1998 and from July 1, 2001 through June 30, 2005, the workers' compensation plan provided coverage up to \$250,000 and purchased excess insurance for claims over the retained coverage limit. Between August 1, 1998 and June 30, 2001, and after July 1, 2005, the District purchased insurance for the workers' compensation coverage.

The liability for unpaid claims and claim adjustment expenses represents the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. These claims will be paid in future years.

District management recomputes the liability annually using available updated claims data. Every three years, the District contracts with an actuary who performs an actuarial study using a variety of statistical techniques to produce current estimates that consider claim frequency and other economic factors. The liability for workers compensation is based on an actuarial study dated June 30, 2006.

The liabilities for unpaid claims and claim adjustment expenses are as follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 13,290,628	\$ 13,290,628
Total incurred claims and claim adjustment expenses	4,242,279	6,034,003
Total payments	<u>(4,242,279)</u>	<u>(6,034,003)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u><u>\$ 13,290,628</u></u>	<u><u>\$ 13,290,628</u></u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES

General Obligation Bonds

Series 2001:

On June 20, 2001, the District issued General Obligation Bonds, Series 2001, totaling \$22,800,000. The bonds bear interest at rates ranging from 4.25% to 6.00% and are scheduled to mature through July 2026 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 675,000	\$ 993,406	\$ 1,668,406
2009	710,000	952,996	1,662,996
2010	735,000	922,732	1,657,732
2011	765,000	882,306	1,647,306
2012	800,000	840,232	1,640,232
2013-2017	4,590,000	3,622,582	8,212,582
2018-2022	5,845,000	2,391,500	8,236,500
2023-2027	<u>5,881,000</u>	<u>765,275</u>	<u>6,646,275</u>
	<u>\$ 20,001,000</u>	<u>\$ 11,371,029</u>	<u>\$ 31,372,029</u>

Series 2003:

On January 9, 2003, the District issued General Obligation Bonds, Series 2003, totaling \$28,000,000. The bonds bear interest at rates ranging from 3.00% to 5.25% and are scheduled to mature through January 2028 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 785,000	\$ 591,532	\$ 1,376,532
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	925,000	1,071,859	1,996,859
2013-2017	5,195,000	4,778,206	9,973,206
2018-2022	6,425,000	3,406,195	9,831,195
2023-2027	8,095,000	1,695,263	9,790,263
2028-2032	<u>1,865,000</u>	<u>93,250</u>	<u>1,958,250</u>
	<u>\$ 25,840,000</u>	<u>\$ 15,031,947</u>	<u>\$ 40,871,947</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series 2004:

On January 8, 2004, the District issued General Obligation Bonds, Series 2004, totaling \$29,200,000. The bonds bear interest at rates ranging from 3.00% to 5.00% and are scheduled to mature through January 2029 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 795,000	\$ 604,042	\$ 1,399,042
2009	830,000	1,168,334	1,998,334
2010	865,000	1,135,132	2,000,132
2011	900,000	1,109,184	2,009,184
2012	935,000	1,064,184	1,999,184
2013-2017	5,205,000	4,826,189	10,031,189
2018-2022	6,395,000	3,824,813	10,219,813
2023-2027	8,015,000	2,084,031	10,099,031
2028-2032	<u>3,775,000</u>	<u>264,088</u>	<u>4,039,088</u>
	<u>\$ 27,715,000</u>	<u>\$ 16,079,997</u>	<u>\$ 43,794,997</u>

Series 2006:

On February 8, 2006, the District issued General Obligation Bonds, Series 2006, totaling \$60,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through September 2030 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	410,000	2,490,025	2,900,025
2013-2017	4,570,000	12,009,575	16,579,575
2018-2022	10,245,000	10,439,650	20,684,650
2023-2027	18,505,000	7,393,131	25,898,131
2028-2032	<u>23,125,000</u>	<u>2,226,884</u>	<u>25,351,884</u>
	<u>\$ 60,000,000</u>	<u>\$ 44,798,765</u>	<u>\$ 104,798,765</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (COPs)

In February 1997, the District issued Certificates of Participation in the amount of \$17,500,000, with interest rates from 4.85% to 5.50% maturing in January 2022. With the issuance of the 2007 Certificates of Participation and the payment of \$12,985,000 to the Escrow Agent to advance refund and defease the District's 1997 COPs, the 1997 COPs are considered to be defeased, and the obligations have been removed from the District's financial statements.

In January 2004, the District issued Certificates of Participation in the amount of \$11,999,981 with interest rates from 1.700% to 5.50%, maturing on February 3, 2034:

Year Ending June 30,	COPs Payments
2008	\$ 130,000
2009	180,000
2010	230,000
2011	260,000
2012	295,000
2013-2017	2,290,000
2018-2022	5,375,000
2023-2027	8,025,000
2028-2032	11,750,000
2028-2032	<u>5,655,020</u>
Total payments	34,190,020
Less amount representing interest	<u>(22,332,673)</u>
Net present value of minimum payments	<u>\$ 11,857,347</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (COPs) (Continued)

In February 2007, the District issued Certificates of Participation in the amount of \$45,050,000 with interest rates from 4.00% to 5.00%, maturing on February 1, 2036.

Scheduled payments for the COPs are as follows:

<u>Year Ending June 30,</u>	<u>COPs Payments</u>
2008	\$ 3,211,806
2009	3,240,140
2010	3,194,740
2011	3,164,140
2012	3,124,890
2013-2017	13,580,700
2018-2022	13,103,835
2023-2027	13,088,319
2028-2032	13,096,625
2028-2032	<u>10,475,225</u>
Total payments	79,280,420
Less amount representing interest	<u>(34,230,420)</u>
Net present value of minimum payments	<u>\$ 45,050,000</u>

Capitalized Lease Obligations

The District leases computers, office equipment and buses under long-term lease purchase agreements. The following is a schedule of future lease payments:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2008	\$ 702,834
2009	428,376
2010	428,376
2011	428,376
2012	<u>386,014</u>
Total payments	2,373,976
Less amount representing interest	<u>(226,683)</u>
Net minimum lease payments	<u>\$ 2,147,293</u>

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

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. On March 7, 2003, the District entered into an agreement with Sun Trust Leasing to replace the contracts with California Energy Commission. The agreement with Sun Trust Leasing bears interest at 3.41% and matures on June 22, 2011:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 395,149	\$ 44,568	\$ 439,717
2009	408,745	30,972	439,717
2010	422,809	16,908	439,717
2011	<u>177,852</u>	<u>4,270</u>	<u>182,122</u>
	<u>\$ 1,404,555</u>	<u>\$ 96,718</u>	<u>\$ 1,501,273</u>

State School Building Aid Loan

The State School Building Aid Loan, with interest rates from 4.90% to 5.10%, are secured by all sites purchased and improved; all equipment purchased; and all buildings constructed, reconstructed, altered or added to through the expenditure of funds in accordance with Education Code Section 16019. Repayments to the State School Building Aid Loan is based on a statutory formula with both repayments and interest charges being computed by the State Controller's Office:

<u>Balance July 1, 2006</u>	<u>Interest Charge</u>	<u>Repay- ment</u>	<u>Balance June 30, 2007</u>
<u>\$ 5,715</u>	<u>\$ -</u>	<u>\$ 2,097</u>	<u>\$ 3,618</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 and Commerce, whereby the Bank 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 the 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 the interest earnings will be sufficient to repay the Bonds which mature on June 13, 2012.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM LIABILITIES (Continued)

Qualified Zone Academy Bonds (Continued)

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 Union Safe Deposit Bank, whereby the Bank 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 the 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 the interest earnings will be sufficient to repay the Bonds which mature on November 24, 2018.

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2007 is shown below:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 135,706,000		\$ 2,150,000	\$ 133,556,000	\$ 2,255,000
General Obligation Bonds Premium	1,619,782		72,554	1,547,228	72,553
Certificates of Participation	25,466,956	\$ 45,050,000	13,609,609	56,907,347	1,497,718
Certificates of Participation Premium		176,771	2,032	174,739	6,096
Capitalized lease obligations	2,764,970	253,630	871,307	2,147,293	628,708
California Energy Commission Loan	1,786,560		382,005	1,404,555	395,149
State School Building Loans	5,715		2,097	3,618	2,097
Qualified Zone Academy Bonds	6,635,000			6,635,000	
Post-employment benefits	5,952,001	1,854,728		7,806,729	1,561,346
Compensated absences	3,357,173	133,425		3,490,598	349,060
	<u>\$ 183,294,157</u>	<u>\$ 47,468,554</u>	<u>\$ 17,089,604</u>	<u>\$ 213,673,107</u>	<u>\$ 6,767,727</u>

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation and capitalized lease obligations are made from the General Fund, Capital Facilities Fund, Cafeteria Fund and Mello Roos Fund. Payments on the California Energy Commission Loan are made from the General Fund. Payments on the State School Building Aid Loan are made from the Tax Override Fund. Payments on post-employment benefits and compensated absences are made from the fund for which the related employee worked.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

7. RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2007:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Restricted for revolving cash	\$ 72,260	
Restricted for prepaid expenses	3,084,805	
Restricted for stores inventory	1,390,253	
Restricted for unspent categorical program revenues	29,345,779	
Restricted for special revenues	10,399,802	
Restricted for debt service	4,393,295	
Restricted for capital projects	38,333,420	
Restricted for self insurance	4,057,461	
Restricted for retiree benefits		\$ 461,447
Restricted for scholarships		<u>862,668</u>
 Total restricted net assets	 <u>\$ 91,077,075</u>	 <u>\$ 1,324,115</u>

8. 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).

Plan Description and Provisions

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

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2006-2007 was 9.124% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2005, 2006 and 2007 were \$4,236,003, \$4,035,811 and \$4,217,672, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (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 the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2006-2007 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2006 and 2007 were \$12,113,379, \$12,111,422 and \$12,861,183, respectively, and equal 100% of the required contributions for each year.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9. POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides post-employment 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, 2007, 304 employees met these eligibility requirements. Benefits are provided for retirees age 55 to 65. The District pays up to \$1,095 per month for health benefits of retirees on a pay-as-you-go basis. The liability at June 30, 2007, is \$7,806,729, and is based on the current participants' remaining coverage periods.

10. JOINT POWERS AGREEMENTS

The District participates in one joint venture under a joint powers agreement.

Northern California Regional Liability Excess Fund

The District is a member with other Districts in San Joaquin County and the San Joaquin County Office of Education in Northern California Regional Liability Excess Fund (NCReLIEF) for the operation of a common risk management and insurance program. NCReLIEF is governed by a board consisting of representatives of member districts. The board controls the operations of NCReLIEF, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board.

Condensed audited financial information for NCReLIEF for the year ended June 30, 2007 is as follows:

	NCReLIEF
Total assets	\$ 43,565,701
Total liabilities	\$ 33,421,777
Total net assets	\$ 10,144,424
Total revenues	\$ 35,052,744
Total expenditures	\$ 37,983,796
Change in net assets	\$ (2,931,052)

11. RESTATEMENT OF GOVERNMENTAL NET ASSETS

The July 1, 2006 governmental activities net asset balance has been restated to correctly account for the Retiree Benefits Trust Fund as a Trust Fund. In prior years, this fund had been included in the government-wide statements as a proprietary fund. The effect of this restatement is to reduce government-wide net assets by \$338,122.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

12. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements of future revenue offsets subsequently determined will not have a material effect on the District's financial position.

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2007

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Subtotal
\$	34,397	5,883,161	1,381,875	114,066	3,572,318	\$ 10,985,817
		2,000		14,983		16,983
				2,260		2,260
		198,236	37,553	2,278,096		2,513,885
	153,491	147,997	219,312	54,872		575,672
	5,310	109,164	142,786	16,745	33,973	307,978
	186,300	1,343	676	283,870		283,870
				46,463		234,782
\$	379,498	6,341,901	1,782,202	2,811,355	3,606,291	\$ 14,921,247

ASSETS

Cash in County Treasury
 Cash awaiting deposit
 Cash in revolving fund
 Cash with Fiscal Agent
 Accounts receivable:
 Federal government
 State government
 Local government and other
 Store inventory
 Due from other funds

Total assets

LIABILITIES AND
FUND BALANCES

Liabilities:

Accounts payable
 Deferred revenue
 Due to other funds

Total liabilities

Fund balances

Total liabilities and fund balances

\$	198,597	22,141	49,967	606,362	1,304,560	\$ 2,181,627
	1,523		1,388,103	54,526		1,444,152
	56,242	2,509	146,765	404,020		609,536
	256,362	24,650	1,584,835	1,064,908	1,304,560	4,235,315
	123,136	6,317,251	197,367	1,746,447	2,301,731	10,685,932
\$	379,498	6,341,901	1,782,202	2,811,355	3,606,291	\$ 14,921,247

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS
(Continued)
June 30, 2007

	County School Facilities Fund	Special Reserve Fund	Mello- Roos Fund	Bond Interest and Redemption Fund	Tax Override Fund	Debt Service Fund	Total
	\$ 9,078	\$ 3,016,004	\$ 2,051,058	\$ 4,314,426	\$ 15,994	\$ 62,198	\$ 20,454,575
							16,983
							2,260
						4,278,967	4,278,967
	118	44,062	27,170		215	462	2,513,885
		100,000					575,672
							380,005
							283,870
							334,782
	\$ 9,196	\$ 3,160,066	\$ 2,078,228	\$ 4,314,426	\$ 16,209	\$ 4,341,627	\$ 28,840,999

ASSETS

Cash in County Treasury
 Cash awaiting deposit
 Cash in revolving fund
 Cash with Fiscal Agent
 Accounts receivable:
 Federal government
 State government
 Local government and other
 Store inventory
 Due from other funds

Total assets

LIABILITIES AND
FUND BALANCES

Liabilities:
 Accounts payable
 Deferred revenue
 Due to other funds

Total liabilities

Fund balances

Total liabilities and fund balances

	\$ 2,005,230						\$ 4,186,857
							1,444,152
							609,536
	2,005,230						6,240,545
	\$ 9,196	\$ 1,154,836	\$ 2,078,228	\$ 4,314,426	\$ 16,209	\$ 4,341,627	22,600,454
	\$ 9,196	\$ 3,160,066	\$ 2,078,228	\$ 4,314,426	\$ 16,209	\$ 4,341,627	\$ 28,840,999

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

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2007

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Subtotal
Revenues:						
Revenue limit sources:						
State apportionment	\$ 2,277,841	\$ 3,686,577	\$ 14,766	\$ 11,212,746		\$ 5,964,418
Federal sources	392,077	713,040	3,126,853	918,401	\$ 1,501,940	11,940,552
Other state sources	470,679	5,625	418,515	1,859,269	91,596	5,944,896
Other local sources		454,147				3,294,206
Total revenues	<u>3,140,597</u>	<u>4,859,389</u>	<u>3,560,134</u>	<u>13,990,416</u>	<u>1,593,536</u>	<u>27,144,072</u>
Expenditures:						
Certificated salaries	1,632,475	2,180,073	1,257,907	4,634,000		5,070,455
Classified salaries	261,980	308,359	848,886	2,309,957		6,053,225
Employee benefits	582,389	591,903	803,901	4,810,883		4,288,150
Books and supplies	148,624	188,031	212,746	933,664		5,360,284
Contract services and operating expenditures	569,907	160,593	317,847	321,953	321,953	2,303,964
Capital outlay	1,940		6,255		2,280,321	2,288,516
Debt service:						
Principal retirement				272,272		272,272
Interest				69,861		69,861
Total expenditures	<u>3,197,315</u>	<u>3,428,959</u>	<u>3,447,542</u>	<u>13,030,637</u>	<u>2,602,274</u>	<u>25,706,727</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(56,718)</u>	<u>1,430,430</u>	<u>112,592</u>	<u>959,779</u>	<u>(1,008,738)</u>	<u>1,437,345</u>
Other financing sources (uses):						
Operating transfers in		(83,786)	(109,288)	(402,225)	1,534,471	1,534,471
Operating transfers out		(83,786)	(109,288)	(402,225)	1,534,471	(595,299)
Total other financing sources (uses)						939,172
Net change in fund balances	(56,718)	1,346,644	3,304	557,554	525,733	2,376,517
Fund balances, July 1, 2006	179,854	4,970,607	194,063	1,188,893	1,775,998	8,309,415
Fund balances, June 30, 2007	<u>\$ 123,136</u>	<u>\$ 6,317,251</u>	<u>\$ 197,367</u>	<u>\$ 1,746,447</u>	<u>\$ 2,301,731</u>	<u>\$ 10,685,932</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

(Continued)

For the Year Ended June 30, 2007

	County School Facilities Fund	Special Reserve Fund	Mello- Roos Fund	Bond Interest and Redemption Fund	Tax Override Fund	Debt Service Fund	Total
Revenues:							
Revenue limit sources:							
State apportionment	\$ 9,908,485						\$ 5,964,418
Federal sources	532	\$ 272,141	\$ 124,523	\$ 11,666,150	\$ 1,030	\$ 227,788	11,940,552
Other state sources							15,853,381
Other local sources							15,586,370
Total revenues	9,909,017	272,141	124,523	11,666,150	1,030	227,788	49,344,721
Expenditures:							
Certificated salaries		1,792					5,070,455
Classified salaries		83					6,055,017
Employee benefits		1,017,040					4,288,233
Books and supplies							6,377,324
Contract services and operating expenditures		273,877					2,577,841
Capital outlay		12,312,616					14,601,132
Debt service:							
Principal retirement			321,963	2,150,000	2,097		2,746,332
Interest			347,760	6,093,257			6,510,878
Total expenditures		13,605,408	669,723	8,243,257	2,097		48,227,212
(Deficiency) excess of revenues (under) over expenditures	9,909,017	(13,333,267)	(545,200)	3,422,893	(1,067)	227,788	1,117,509
Other financing sources (uses):							
Operating transfers in	(9,908,485)	9,908,485				(1,317,056)	11,442,956
Operating transfers out	(9,908,485)	9,908,485				(1,317,056)	(11,820,840)
Total other financing sources (uses)							(377,884)
Net change in fund balances	532	(3,424,782)	(545,200)	3,422,893	(1,067)	(1,089,268)	739,625
Fund balances, July 1, 2006	8,664	4,579,618	2,623,428	891,533	17,276	5,430,895	21,860,829
Fund balances, June 30, 2007	\$ 9,196	\$ 1,154,836	\$ 2,078,228	\$ 4,314,426	\$ 16,209	\$ 4,341,627	\$ 22,600,454

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

STOCKTON UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2007

Stockton Unified School District was established on July 1, 1936. The District 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. There were no changes in District boundaries during the year.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Anthony R. Silva	President	2008
Sal Ramirez	Member	2010
Sarah Bowden	Member	2008
Beverly Fitch McCarthy	Member	2010
Edward R. Garcia	Member	2008
Bill Ross	Member	2010
Daniel Castillo	Member	2010

ADMINISTRATION

Jack McLaughlin
Superintendent

Allyn Bulzomi
Assistant Superintendent, Human Resources

Paul Disario
Chief Financial Officer

Wayne Martin
Executive Director, Business Services

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2007

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	2,873	2,876
First through Third	8,699	8,696
Fourth through Eighth	13,549	13,478
Home and Hospital	5	7
Special Education	688	696
Community Day School	14	20
Opportunity School	<u>34</u>	<u>37</u>
Total Elementary	<u>25,862</u>	<u>25,810</u>
Secondary:		
Regular Classes	8,278	8,125
Special Education	454	450
Compulsory Continuation Education	278	264
Home and Hospital	21	23
Community Day School	<u>43</u>	<u>46</u>
Total Secondary	<u>9,074</u>	<u>8,908</u>
Classes for Adults:		
Concurrently Enrolled	85	86
Classes for Adults	<u>1,422</u>	<u>1,471</u>
Total for Adults	<u>1,507</u>	<u>1,557</u>
	<u>36,443</u>	<u>36,275</u>

Hours of Attendance

Summer School:		
Elementary	129,379	138,076
Secondary	<u>303,744</u>	<u>358,100</u>
	<u>433,123</u>	<u>496,176</u>

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2007

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	31,500	36,000	180	In Compliance
Grade 1	50,400	50,250	54,000	180	In Compliance
Grade 2	50,400	50,250	54,000	180	In Compliance
Grade 3	50,400	50,250	54,000	180	In Compliance
Grade 4	54,000	53,850	54,000	180	In Compliance
Grade 5	54,000	53,850	54,000	180	In Compliance
Grade 6	54,000	53,850	54,000	180	In Compliance
Grade 7	54,000	58,500	55,800	180	In Compliance
Grade 8	54,000	58,500	55,800	180	In Compliance
Grade 9	64,800	64,980	64,980	180	In Compliance
Grade 10	64,800	64,980	64,980	180	In Compliance
Grade 11	64,800	64,980	64,980	180	In Compliance
Grade 12	64,800	64,980	64,980	180	In Compliance

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2007

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education IDEA: Basic and Local Assistance Entitlement, Part B, Sec 611	13379	\$ 6,129,036
84.173	Special Education Preschool Grants	13430	202,859
84.027A	Special Education IDEA: Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	352,163
84.173	Special Education IDEA Preschool Staff Development, Part B, Sec 619	13431	3,146
84.181	Special Education IDEA Early Intervention	23761	<u>178,290</u>
	Subtotal Special Education Cluster		<u>6,865,494</u>
	Title I Cluster:		
84.010	NCLB: Title I, Part A, Basic Grants Low Income	14039	16,283,368
84.010	NCLB: Title I Local Delinquent Programs, Part D	13798	36,556
84.010	NCLB: Title I Comprehensive School Reform	14329	944,573
84.010	NCLB: Title I, Part A, Program Improvement, District Intervention	14417	<u>365,718</u>
	Subtotal Title I Cluster		<u>17,630,215</u>
84.002	Adult Education Priority 1 -3	13973	257,850
84.002	Adult Education Priority 4, Family Literacy	13977	75,600
84.002	Adult Education Priority 5 Adult Secondary Education	13978	11,250
84.002	Adult Education English Literacy and Citizenship	14109	368,340
84.350A	Transition to Teaching Program	-	231,280
84.351C	Professional Development Music Education	-	13,188
84.334	Gear It Up	10088	996,078
84.364	Improving Social Literacy - Library Program	-	64,209
84.298A	Title VI Innovative Education Program	14354	80,709
84.215E	Elementary Counseling Demo Program	-	323,336
84.196	Title X McKinney Vento Homeless Assistance	24166	72,627
84.060	Indian Education	10011	364,738
84.367	NCLB: Title II Part A Improving Teacher Quality	14341	3,509,944
84.367	Principal Training	14341	9,275
84.365	NCLB: Title III Immigrant Education Program	14346	52,352
84.365	NCLB Title III Limited English Proficiency	10084	840,983
84.318	Title II Part B CAMSP	14512	427,542
84.318	Title II Part D Enhancing Education through Technology	14368	406,320
84.048	Vocational Education - Carl Perkins	13924	485,622
84.186	Title IV Safe and Drug Free Schools	14347	782,778
84.184E	Emergency Response Plans	-	145,978
84.287	Twenty First Century Learning Centers	14349	<u>1,356,632</u>
	Total U.S. Department of Education		<u>35,372,340</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2007

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Health and Human Services</u>			
93.575	Child Care and Development Block Grant	13942	\$ 3,153
93.778	Medical assistance Program	10013	<u>210,627</u>
	Total U.S. Department Health and Human Services		<u>213,780</u>
<u>U.S. Department of Agriculture</u>			
10.555	National School Lunch Program	13396	<u>11,224,359</u>
	Totals		<u>\$ 46,810,479</u>

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

	<u>Capital Facilities Fund</u>
June 30, 2007 Unaudited Actual Financial Report Ending Fund Balance	\$ 26,280,573
Adjustment to correct recording of proceeds from issuance of Refunding Certificates of Participation	<u>17,372,438</u>
June 30, 2007 Audited Financial Statements Ending Fund Balance	<u>\$ 43,653,011</u>

There were no audit adjustments proposed to any other funds of the District

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2007

	(Budget) 2008	2007	2006	2005
<u>General Fund</u>				
Revenues and other financing sources	\$ 324,296,003	\$ 335,002,867	\$ 307,856,589	\$ 296,138,957
Expenditures	322,781,624	317,805,158	289,434,313	295,695,127
Other uses and transfers out	1,534,471	1,534,471	1,621,047	968,000
Total outgo	324,316,095	319,339,629	291,055,360	296,663,127
Change in fund balance	\$ (20,092)	\$ 15,663,238	\$ 16,801,229	\$ (524,170)
Ending fund balance	\$ 49,493,416	\$ 49,513,508	\$ 33,850,270	\$ 17,049,041
Available reserves	\$ 7,926,648	\$ 18,487,343	\$ 8,183,528	\$ 6,313,210
Designated for economic uncertainties	\$ 6,477,773	\$ -	\$ 5,821,107	\$ 5,912,341
Undesignated fund balance	\$ 1,448,875	\$ 18,487,343	\$ 2,362,421	\$ 400,869
Available reserves as percentages of total outgo	2.45%	5.79%	2.81%	2.12%
<u>All Funds</u>				
Total long-term liabilities	\$ 206,905,380	\$ 213,673,107	\$ 194,060,920	\$ 139,136,639
Average daily attendance at P-2, excluding Adult and Charter School	34,715	34,936	35,243	35,756

The General Fund fund balance has increased by \$31,940,297 over the past three years. The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the 2007-2008 fiscal year. The fiscal year 2007-2008 budget projects a decrease of \$20,092. For a district this size, the state recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2007, the District has met this requirement.

Total long-term liabilities have increased by \$74,536,468 over the past two years, due primarily to the issuance of General Obligation Bonds and Certificates of Participation (Note 6 to the financial statements).

Average daily attendance has decreased by 820 over the past two years. The District anticipates a decrease of 221 ADA for the 2007-2008 fiscal year.

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2007

Charter Schools Chartered by District

James Urbani Institute for Language Development
Institute of Business, Management and Law
Aspire South Stockton School

**Included in District
Financial Statements, or
Separate Report**

Included in Charter Fund
Included in Charter Fund
Not Included

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXCESS SICK LEAVE

For the Year Ended June 30, 2007

Contract or Bargaining Agreement	Title of Employee
Contract allows 14 sick days per year.	Superintendent

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133 requirements, and was prepared on the modified accrual basis of accounting.

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2007-2008 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

G - Schedule of Excess Sick Leave

This schedule provides information to the California State Teachers' Retirement System to monitor the granting of excess sick leave by school districts.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2007, the District did not adopt this program.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Education
Stockton Unified School District
Stockton, California

We have audited the compliance of Stockton Unified School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2007. Compliance with the requirements of state laws and regulations is the responsibility of Stockton Unified School District's management. Our responsibility is to express an opinion on Stockton Unified School 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 the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School 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 of Stockton Unified School District's compliance with those requirements.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Regular and Special Day Classes	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Center and Programs	6	No, see below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Community Day Schools	9	No, see below
Morgan Hart Class Size Reduction Program	7	No, see below
Instructional Materials:		
General requirements	12	Yes
Grades K-8	1	Yes
Grades 9-12	1	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Notification of Right to Elect California State Teachers Retirement System (CalSTRS) Membership	1	Yes
Alternative Pension Plans	2	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	No, see below
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
Contemporaneous Records of Attendance, for charter schools	1	Yes
Mode of Instruction, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	3	Yes

We did not perform any procedures related to Regional Occupational Center/Programs because the District does not offer this program.

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office of Education.

We did not perform any procedures related to Community Day School ADA because the ADA reported was below the level required for testing.

We did not perform any procedures related to the Morgan Hart Class Size Reduction Program because the District does not operate this program.

We did not perform any procedures related to Early Retirement Incentive Program and Alternative Pension Plans because the District did not offer these programs in the current year.

The 2006-2007 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2007. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2006-2007 Audit Guide relating to the comparison of tested data from the 2006-2007 fiscal year to the 2006-2007 School Accountability Report Cards.

We did not perform any procedures related to Class Size Reduction Program - Option Two classes and Districts with only one school serving K-3 because the District does not offer Option Two, and the District has more than one school serving K-3.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

We did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study for charter schools because the District's charter school has no Nonclassroom-Based/Independent Study students.

In our opinion, Stockton Unified School District complied with the state laws and regulations referred to above for the year ended June 30, 2007, except as described in the Schedule of Audit Findings and Questioned Costs section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Stockton Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information of the Board of Education, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith LLP

Sacramento, California
December 13, 2007

**INDEPENDENT AUDITOR'S 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 Stockton Unified School District as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. 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 Stockton Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stockton Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Stockton Unified School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**INDEPENDENT AUDITOR'S 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**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stockton Unified School 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office 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. However, this report is a matter of public record and its distribution is not limited.

Perry - Smith LLP

Sacramento, California
December 13, 2007

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON 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 Stockton Unified School 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, 2007. Stockton Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Stockton Unified School District's management. Our responsibility is to express an opinion on Stockton Unified School 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 Stockton Unified School 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 Stockton Unified School District's compliance with those requirements.

In our opinion, Stockton Unified School 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, 2007.

Internal Control Over Compliance

The management of Stockton Unified School 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 Stockton Unified School 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 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Stockton Unified School District's internal control over compliance.

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

(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office 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. However, this report is a matter of public record and its distribution is not limited.

Berry - Smith LLP

Sacramento, California
December 13, 2007

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

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

Significant deficiency(ies) identified not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weakness(es)? 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 Circular A-133, Section .510(a)? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367 10.555	Title II- Part A Improving Teacher Quality National School Lunch

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,404,314

Auditee qualified as low-risk auditee? Yes No

STATE AWARDS

Internal control over state programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes None reported

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

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2007

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2007

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

1. KINDERGARTEN CONTINUANCE (40000)

Criteria

Education Code Section 46300 (g) – Each LEA may include the attendance of pupils in kindergarten after they have completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Ed Code Section 48011, and signed parental consent for the pupil to continue.

Condition

The retention forms used for three pupils were incorrectly signed and dated. Additionally, the District was unable to provide the form for one pupil.

Effect

Overstatement of 2.181 ADA generated by these students.

Cause

The person approving the retention forms for each pupil did not notice that the dates that the forms were signed were incorrect.

Fiscal Impact

The total effect of this finding is an overstatement of 2.181 ADA representing approximately \$11,345 in revenue limit funding.

Recommendation

We recommend the District revise and re-submit the Period Two Report of Attendance to reflect the removal of the disallowed ADA. Additionally, we recommend the District review the process for completing and retaining the form.

Corrective Action Plan

The District will amend and resubmit the Second Period and Annual Reports of Attendance removing the disallowed ADA. In addition, the District will contact the schools management and verify the completeness of future agreements.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2007

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS
(Continued)

2. CALIFORNIA SCHOOL AGE FAMILIES EDUCATION PROGRAM (40000)

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the state.

Condition

The District incorrectly reported the number of days attended for their Report of Attendance for Pupils enrolled in district Cal-Safe Programs.

Effect

Overstatement of ADA.

Cause

Per review of the supporting documentation for the Cal-Safe Report of Attendance for pupils, the incorrect number of days present for two pupils for Home and Hospital was used for the ADA calculation. In addition, the total ADA for Model Continuation was reported incorrectly due to a clerical mistake.

Fiscal Impact

There is no fiscal impact of this error since ADA overstated is less than 0.5 ADA.

Recommendation

The District should review their Report for Cal-Safe Child Care Funding for mathematical accuracy prior to submission.

Corrective Action Plan

The District will implement review procedures over the Cal-Safe Child Care Funding Form in the future.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2007

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2006-1 CASH MANAGEMENT</p> <p>There was a lack of segregation of duties in the cash management function. The District should separate the custody of cash from the recording function.</p>	Implemented.	
<p>2006-2 INSTRUCTIONAL MATERIALS</p> <p>There were two disallowed purchases. The District should transfer the expenditures from the Lottery instructional materials resource to an unrestricted general ledger account.</p>	Implemented.	