

STOCKTON UNIFIED SCHOOL DISTRICT

COUNTY OF SAN JOAQUIN

STOCKTON, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2009

AND

INDEPENDENT AUDITOR'S REPORT



PERRY-SMITH

THE POWER OF CONFIDENCE

STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2009

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STOCKTON UNIFIED SCHOOL DISTRICT

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WITH SUPPLEMENTARY INFORMATION**

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STOCKTON UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2009

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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, 2009, 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, 2009, 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 8, 2009 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 8, 2009





Management's Discussion and Analysis

An overview of Stockton Unified School District's (the "District") financial activities for the fiscal year ended June 30, 2009, 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 2009 fiscal year was \$407.2 million. Expenditures totaled \$395.7 million. Net assets increased by \$11.5 million. This represents a 4.3% increase over the prior year.
- Capital assets, net of depreciation, increased by \$24.8 million. Projects completed during the fiscal year included the Cesar Chavez High School Modular Building Project and road repairs at Franklin High School.
- Construction and modernization work continued at a number of district school sites. Costs expended on projects in the construction phase totaled \$69.1 million at the end of the fiscal year.
- Long-term debt increased by \$15.9 million due, in part, to the issuance of \$22.0 million in Bond Anticipation Notes. The notes issued were given a credit rating of "SP-1+" by Standards & Poor's Rating Services. The proceeds from the sale of the notes will be used to finance costs relating to the acquisition and construction of educational projects and facilities for the District and paying costs of issuance.

Overview of the Financial Statements

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

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

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

- *Governmental funds statements*, which tell how basic services, such as regular and special education, were financed in the short-term, as well as what remains for future spending.
- *Proprietary funds statements*, offering short and long-term financial information about the activities the District operates like a business, such as the self-insurance and retiree benefit funds.
- *Fiduciary funds statements*, providing information about the financial relationships in which the District acts solely as trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the fiscal year.

The chart below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Major Features of the Government-wide and Fund Financial Statements

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

Government-wide Statements

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

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

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

Fund Financial Statements

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

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

There are three types of funds that the District utilizes:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps in the determination of whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.
 - *Internal Service funds* are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has two internal service funds – the self-insurance fund and the retiree benefits fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance operations.

Financial Analysis of the District as a Whole

The computation of District net assets at June 30, 2009 and 2008 is presented by category in the table below:

	Government-Wide Activities		Year Over
	2009	2008	Year Change
Current and other assets:			
Cash	\$ 222,690,526	\$ 236,892,392	\$(14,201,866)
Receivables	48,871,284	28,887,493	19,983,791
Inventories	1,379,292	1,457,190	(77,898)
Other current assets	4,371,847	5,033,478	(661,631)
Capital assets, net of depreciation	<u>408,411,372</u>	<u>383,646,270</u>	<u>24,765,102</u>
Total assets	<u>685,724,321</u>	<u>655,916,823</u>	<u>29,807,498</u>
Long-term debt outstanding	350,967,088	335,099,875	15,867,213
Other liabilities	<u>52,874,827</u>	<u>50,433,511</u>	<u>2,441,316</u>
Total liabilities	<u>403,841,915</u>	<u>385,533,386</u>	<u>18,308,529</u>
Net assets:			
Invested in capital assets, net of related debt	201,904,578	79,820,708	122,083,870
Restricted	68,107,489	181,705,882	(113,598,393)
Unrestricted	<u>11,870,339</u>	<u>8,856,847</u>	<u>3,013,492</u>
Total Net Assets	<u>\$ 281,882,406</u>	<u>\$ 270,383,437</u>	<u>\$ 11,498,969</u>

Total assets increased by \$29.8 million during the 2009 fiscal year. Capital assets, net of depreciation, increased by a total of \$24.8 million. Capital assets are discussed in more detail later in this Management Discussion and Analysis report.

Total liabilities increased by \$18.3 million. Of this total, long-term debt increased by \$15.9 million, primarily from the issuance of \$22.0 million in Bond Anticipation Notes. Other liabilities increased by a total of \$2.4 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 \$29.8 million increase to Total assets and the \$18.3 million increase to Total liabilities results in a net \$11.5 million increase to Total Net Assets, a 4.3% change from the balance at June 30, 2008.

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
	2009	2008	Year Change
Revenues – Program:			
Charges for Services	\$ 3,059,949	\$ 3,514,285	\$ (454,336)
Operating Grants and Contributions	133,827,522	137,578,632	(3,751,110)
Capital Grants and Contributions	21,395,442	--	21,395,442
Revenues – General:			
Unrestricted Federal and State Aid	184,653,764	185,859,741	(1,205,977)
Taxes Levied for General Purposes	37,306,413	38,886,919	(1,580,506)
Taxes Levied for Debt Service	19,161,752	14,542,186	4,619,566
Interest and Investment Earnings	4,065,491	7,528,016	(3,462,525)
Other General Revenues	<u>3,725,285</u>	<u>6,073,362</u>	<u>(2,348,077)</u>
Total Revenues	<u>407,195,618</u>	<u>393,983,141</u>	<u>13,212,477</u>
Expenses:			
Instruction	236,078,494	233,367,407	2,711,087
Pupil and Instructional Services	92,632,545	90,751,630	1,880,915
General Administration	15,096,451	14,930,385	166,066
Plant Services	35,722,359	35,122,943	599,416
Other Expenses	<u>16,166,800</u>	<u>13,349,752</u>	<u>2,817,048</u>
Total Expenses	<u>395,696,649</u>	<u>387,522,117</u>	<u>8,174,532</u>
Increase in Net Assets	11,498,969	6,461,024	5,037,945
Net Assets, Beginning of the Year	<u>270,383,437</u>	<u>263,922,413</u>	<u>6,461,024</u>
Net Assets, End of the Year	<u>\$ 281,882,406</u>	<u>\$ 270,383,437</u>	<u>\$ 11,498,969</u>

For the 2009 fiscal year, total District revenues were \$407.2 million. Total District expenses were \$395.7 million. The difference, \$11.5 million is the increase in net assets, bringing the total net assets at June 30, 2009 to \$281.9 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. Total second month enrollment in Grades K – 12 for the 2009 fiscal year was 37,154 students, a decrease of 531 students from the prior year. The primary area of enrollment decline was at the elementary school level (Grades K – 8), where enrollment decreased by 432 students.

Second Period (P-2) ADA also declined. For the 2009 fiscal year, the P-2 ADA totaled 34,468, a decrease of 296 ADA from the prior fiscal year.

Governmental Activities

Governmental Activities Expenditures

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction, Instruction-related Services and Pupil Services	\$ 328,711,039	\$ 324,119,037	\$ 191,255,958	\$ 192,484,399
General Administrative and Plant Services	50,818,810	50,053,328	30,585,883	41,202,615
Ancillary Services	<u>912,652</u>	<u>1,607,310</u>	<u>820,751</u>	<u>1,497,074</u>
Totals	<u>\$ 380,442,501</u>	<u>\$ 375,779,675</u>	<u>\$ 222,662,592</u>	<u>\$ 235,184,088</u>

This table displays by function the total and net cost of services provided for the 2009 and 2008 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, 2009, the District had fourteen governmental funds reporting a combined fund balance of \$222.9 million, an increase of \$6.2 million over the prior year. Of these funds, seven had revenues that exceeded expenditures in 2009, contributing to the combined fund balance. The following table details the fund balances of the individual governmental funds.

Governmental Funds – Fund Balance

	Fund Balance – June 30,		Year Over
	2009	2008	Year Change
General Fund	\$ 49,347,662	\$ 47,850,556	\$ 1,497,106
Charter Schools Special Revenue Fund	--	8,994	(8,994)
Adult Education Fund	3,843,967	7,842,641	(3,998,674)
Child Development Fund	(557,187)	197,537	(754,724)
Cafeteria Special Revenue Fund	5,203,523	2,644,332	2,559,191
Deferred Maintenance Fund	1,257,435	3,927,317	(2,669,882)
Building Fund	30,992,744	37,366,394	(6,373,650)
Capital Facilities Fund	31,451,495	36,003,806	(4,552,311)
County School Facilities Fund	16,965	3,782	13,183
Special Reserve for Capital Outlay Projects	80,185,668	63,253,490	16,932,178
Capital Proj. Fund for Blended Component Units	2,154,414	2,116,174	38,240
Bond Interest and Redemption Fund	14,221,069	10,916,195	3,304,874
Tax Override Fund	12,975	14,798	(1,823)
Debt Service Fund	<u>4,769,394</u>	<u>4,551,033</u>	<u>218,361</u>
Totals	<u>\$ 222,900,124</u>	<u>\$ 216,697,049</u>	<u>\$ 6,203,075</u>

General Fund Budgetary Highlights

The District's 2009 General Fund operating budget was adopted by the Governing Board in June of 2008. The budget was essentially balanced as projected revenues totaled \$322.5 million, exceeding budgeted expenditures by \$17,925.

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 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 Sources	\$ 196,897,717	\$ 196,799,981	\$ 97,736
Federal Revenue	50,937,810	46,330,264	4,607,546
Other State Revenue	84,331,683	89,511,158	(5,179,475)
Other Local Revenue	7,168,699	9,063,138	(1,894,439)
Transfers In/Other Sources	<u>1,017,115</u>	<u>465,371</u>	<u>551,744</u>
Total Revenue	<u>\$ 340,353,024</u>	<u>\$ 342,169,912</u>	<u>\$ (1,816,888)</u>

	General Fund		Increase (Decrease)
	Actual	Revised Budget	
Expenditures:			
Certificated Salaries	\$ 165,556,362	\$ 165,577,752	\$ (21,390)
Classified Salaries	50,184,846	51,492,485	(1,307,639)
Employee Benefits	66,367,973	69,387,134	(3,019,161)
Books and Supplies	20,490,896	53,333,230	(32,842,334)
Services and Other Operating Expenses	34,956,359	40,125,244	(5,168,885)
Capital Outlay	27,932	42,823	(14,891)
Other Outgo/ Direct Support/Indirect Costs	636,530	777,993	(141,463)
Transfers Out/Other Uses	<u>635,020</u>	<u>707,340</u>	<u>(72,320)</u>
Total Expenditures	<u>\$ 338,855,918</u>	<u>\$ 381,444,001</u>	<u>\$ (42,588,083)</u>

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2009, along with the increase or decrease to fiscal year 2008 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

General Fund

FY-2009 Actual	Percent Of Total	Increase (Decrease) from FY-2008	Percent Increase or (Decrease)
-------------------	---------------------	--	--------------------------------------

Revenues:

Revenue Limit	\$ 196,897,717	58.03%	\$ (6,563,176)	(3.23)%
Federal Revenue	50,937,810	15.01%	14,718,851	40.64%
Other State Revenue	84,331,683	24.85%	(9,104,075)	(9.74)%
Other Local Revenue	<u>7,168,699</u>	<u>2.11%</u>	<u>(1,869,612)</u>	(20.69)%
Total Revenues	<u>\$ 339,335,909</u>	<u>100.00%</u>	<u>\$ (2,818,012)</u>	(0.82)%

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-2009 Actual	Percent Of Total	Increase (Decrease) from FY-2008	Percent Increase or (Decrease)
-------------------	---------------------	--	--------------------------------------

Expenditures:

Certificated Salaries	\$ 165,556,362	48.95%	\$ 8,425,169	5.36%
Classified Salaries	50,184,846	14.84%	233,474	0.47%
Employee Benefits	66,367,973	19.62%	724,048	1.10%
Books and Supplies	<u>20,490,896</u>	<u>6.06%</u>	<u>(10,217,172)</u>	(33.27)%
Services, Other Operating Expenses	34,956,359	10.33%	(3,044,078)	(8.01)%
Capital Outlay	27,932	0.01%	(525,520)	(94.95)%
Other Outgo/Dir. Supp/Indirect Costs	<u>636,530</u>	<u>0.19%</u>	<u>(279,614)</u>	(30.52)%
Total Expenditures	<u>\$ 338,220,898</u>	<u>100.00%</u>	<u>\$ (4,683,693)</u>	(1.37)%

The District's financial condition was tested during the 2009 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	
	2009	2008
Land	\$ 21,169,097	\$ 21,169,097
Improvement of Sites	2,077,980	2,151,076
Buildings	312,083,331	311,056,575
Equipment	3,945,053	4,896,541
Construction in Progress	<u>69,135,911</u>	<u>44,372,981</u>
Totals	<u>\$ 408,411,372</u>	<u>\$ 383,646,270</u>

Capital assets in the table above are reflected at June 30, 2009 and 2008, 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 \$24.8 million during the year. Major capital asset projects completed during the year include the following:

✓ Construction	Chavez High Modular Building Project	\$7.4 million
✓ Land Improvement	Franklin High Road Repair	\$0.1 million

A total of \$69.1 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 modernization projects at a number of school sites.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2009	2008
General Obligation Bonds	\$ 255,397,855	\$ 260,940,459
Certificates of Participation	54,155,130	55,578,272
Bond Anticipation Notes	22,036,865	--
Qualified Zone Academic Bonds Payable	6,635,000	6,635,000
Lighting Retrofit Payable	600,565	1,009,349
State School Building Loan Payable	--	1,995
Compensated Absences	3,517,336	3,758,132
Other Postretirement Benefits	7,475,837	5,658,083
Capital Leases	<u>1,148,500</u>	<u>1,518,585</u>
Totals	<u>\$ 350,967,088</u>	<u>\$ 335,099,875</u>

Outstanding debt increased by a net amount of \$15.9 million during the fiscal year. This increase primarily results from the issuance of \$22.0 million in Bond Anticipation Notes. These notes carry a Standard and Poor's credit rating of "SP-1+." The funds received from the sale of the notes will be used to finance the acquisition and construction of educational projects and facilities in the District and to pay the costs of issuance.

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 2009-10 Stockton Unified School District budget has been developed with all components of the proposal presented by the Governor in January and any applicable May Revise adjustments.

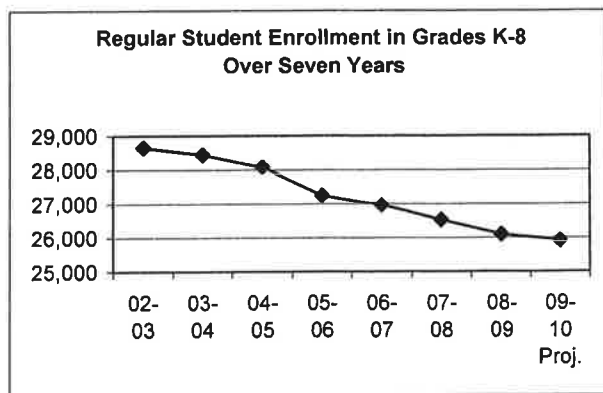
This has been a difficult budget to prepare and monitoring it will be a challenge as the year continues. The national and state economic situation, while slowly improving, is far from stable. Concerns over being in a recession, the unemployment rate, and housing prices and construction continue to drag on a quick economic recovery. The adage "two steps forward, one step back" certainly applies to the situation that the District currently finds itself. The federal government has provided stimulus funds to assist in helping governmental entities, including school districts, deal with the current economic situation. While helpful, these funds are a one-time revenue source and cannot be relied on as a long-term solution. The state government has decided to deal with its own budget problems by deferring payments to state agencies and to impose deficit factors which reduce funds that come to the District. This puts the District in a precarious situation where cash management becomes critical. The District is dealing with the current situation by looking at cost cutting measures and soliciting ideas from staff, bargaining units, and the public to further reduce the budget. All parties: the community, the unions, and District employees and administration, have a vested interest in finding ways to maintain the financial stability of Stockton Unified School District.

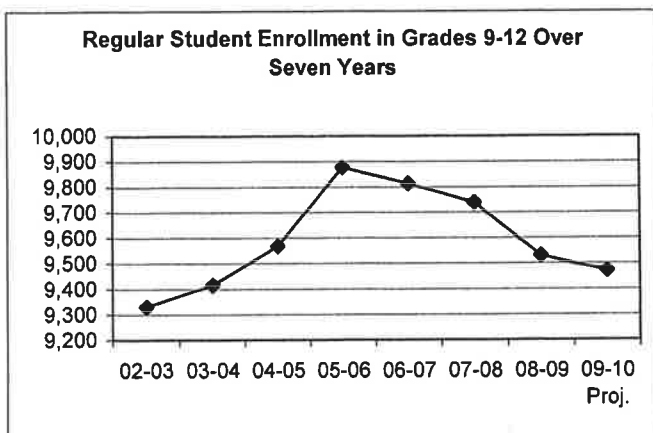
Critical assumptions used to prepare the 2009-10 budget are discussed below.

Enrollment Projections

One of the economic factors affecting the 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. The rate of decline appears to be greatly reduced as the 2009-10 school year begins.

A declining enrollment pattern reduces the future outlook for expanding District deliverable operational service areas and supplies. For example, reduced enrollment requires fewer instructional support staff members and fewer orders for textbooks. All in all, when a district's enrollment declines it requires contraction of staff, services, and supplies. Enrollment declines in a school district 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 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. For the 2009-10 year, a COLA of 4.25% has been included in preparing the Revenue Limit. Unfortunately, this increase to revenue has been eliminated by the state imposing a revenue limit deficit factor of 17.967%. The end result is that the District will receive substantially less revenue through the revenue limit for the 2009-10 fiscal year than received during the 2008-09 year.

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 District anticipates that upward pressure to increase salary compensation and health benefits will continue over the next few years. Currently, the District allocates approximately 78% of the total General Fund expenditure budget toward salary and benefit related areas.

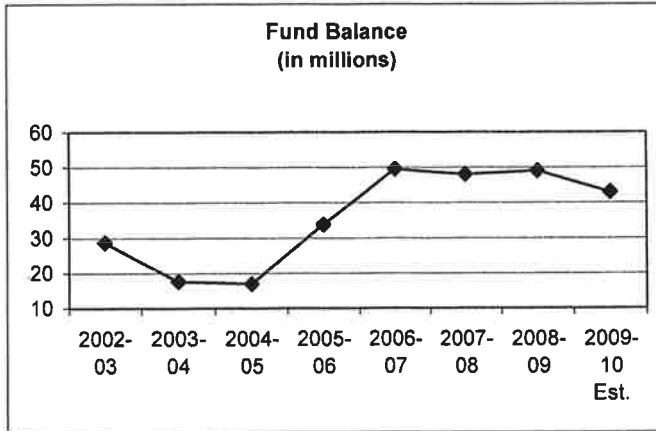
Health Rates

The cost of health care is expected to increase over the next few years. The District has established a health benefits allowance for 2009-10; however, upward pressure to increase the health benefits allowance will undoubtedly continue as health care cost continue to skyrocket. The District is working with the employee bargaining groups to explore ways to maintain acceptable levels of health care at affordable costs. Even so, 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 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 \$6.7 million.). Setting aside a state required reserve means that the district has fewer dollars available for operational areas. Based on current financial projections, the unrestricted fund balance for the District is expected to decline over the next few years due to the national economic situation, no expected state COLA increases, and the continuing decline in student enrollment. The chart below shows the history of the District’s fund balance.



Note: The estimated fund balance for FY 2009-10 includes any restricted balance estimates.

Conclusion

The District continues to face many challenges: decreasing state funding, negotiating salary compensation, increased health care costs, maintenance of a positive fund balance, and effective cash management. Proper planning and foresight will be required for the district to 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. Jason Willis, Chief Financial Officer, Stockton Unified School District, 701 North Madison Street, Stockton, CA 95202.

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2009

Governmental
Activities

ASSETS

Cash and investments (Note 2)	\$ 222,690,526
Accounts receivable	48,871,284
Prepaid expenditures	4,371,847
Stores inventory	1,379,292
Capital assets, net of accumulated depreciation (Note 4)	<u>408,411,372</u>
Total assets	<u>685,724,321</u>

LIABILITIES

Accounts payable	29,513,644
Claims liability (Note 5)	11,359,427
Deferred revenue	12,001,756
Long-term liabilities (Note 6):	
Due within one year	9,663,595
Due after one year	<u>341,303,493</u>
Total liabilities	<u>403,841,915</u>

NET ASSETS

Invested in capital assets, net of related debt	201,904,578
Restricted (Note 7)	68,107,489
Unrestricted	<u>11,870,339</u>
Total net assets	<u>\$ 281,882,406</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, 2009

	<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	\$ 236,078,494	\$ 1,164,316	\$ 67,949,640	\$ 21,395,442	\$ (145,569,096)
Instruction-related services:					
Supervision of instruction	27,950,616	184,617	17,229,010		(10,536,989)
Instructional library, media and technology	1,739,125		449,634		(1,289,491)
School site administration	20,405,693	120,360	1,310,200		(18,975,133)
Pupil services:					
Home-to-school transportation	10,877,992	29,575	6,167,933		(4,680,484)
Food services	13,064,359	1,029,823	13,902,564		1,868,028
All other pupil services	18,594,760	380,619	6,141,348		(12,072,793)
General administration:					
Data processing	3,033,147				(3,033,147)
All other general administration	12,063,304	98,188	17,415,569		5,450,453
Plant services	35,722,359	23,398	2,695,772		(33,003,189)
Ancillary services	912,652		91,901		(820,751)
Enterprise activities	3,330				(3,330)
Other outgo	360,950	29,053	473,951		142,054
Interest on long-term liabilities	14,486,649				(14,486,649)
Unallocated depreciation	403,219				(403,219)
	<u>\$ 395,696,649</u>	<u>\$ 3,059,949</u>	<u>\$ 133,827,522</u>	<u>\$ 21,395,442</u>	<u>(237,413,736)</u>
Total governmental activities					
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					37,306,413
Taxes levied for debt service					19,161,752
Taxes levied for other specific purposes					379,700
Federal and state aid not restricted to specific purposes					184,653,764
Interest and investment earnings					4,065,491
Interagency revenues					191,429
Miscellaneous					<u>3,154,156</u>
					<u>248,912,705</u>
					11,498,969
					<u>270,383,437</u>
					<u>\$ 281,882,406</u>

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

STOCKTON UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2009

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve Fund</u>	<u>All Non-Major Funds *</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments:						
Cash in County Treasury	\$ 26,672,368		\$ 15,033,274		\$ 27,292,414	\$ 68,998,056
Cash in County Treasury restricted for capital projects		\$ 36,504,746		\$ 78,699,195		115,203,941
Cash in revolving fund	70,000				2,500	72,500
Cash awaiting deposit					16,371	16,371
Cash with Fiscal Agent	1,700,376		17,342,799	1,729,566	4,702,817	25,475,558
Accounts receivable	46,547,357	93,566	35,157	469,146	1,065,142	48,210,368
Prepaid expenditures	58,409				50,000	108,409
Due from other funds	5,718,950	285,018	707,929		5,045,361	11,757,258
Stores inventory	<u>1,160,946</u>				<u>218,346</u>	<u>1,379,292</u>
Total assets	<u>\$ 81,928,406</u>	<u>\$ 36,883,330</u>	<u>\$ 33,119,159</u>	<u>\$ 80,897,907</u>	<u>\$ 38,392,951</u>	<u>\$ 271,221,753</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 16,528,715	\$ 5,876,169	\$ 683,174	\$ 425,624	\$ 601,716	\$ 24,115,398
Deferred revenue	9,863,154				2,138,602	12,001,756
Due to other funds	<u>6,188,875</u>	<u>14,417</u>	<u>984,490</u>	<u>286,615</u>	<u>4,730,078</u>	<u>12,204,475</u>
Total liabilities	32,580,744	5,890,586	1,667,664	712,239	7,470,396	48,321,629
Fund balances	<u>49,347,662</u>	<u>30,992,744</u>	<u>31,451,495</u>	<u>80,185,668</u>	<u>30,922,555</u>	<u>222,900,124</u>
Total liabilities and fund balances	<u>\$ 81,928,406</u>	<u>\$ 36,883,330</u>	<u>\$ 33,119,159</u>	<u>\$ 80,897,907</u>	<u>\$ 38,392,951</u>	<u>\$ 271,221,753</u>

* Refer to page 54.

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, 2009

Total fund balances - Governmental Funds		\$ 222,900,124
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 \$536,346,267 and the accumulated depreciation is \$127,934,895 (Note 4).		408,411,372
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, 2009 consisted of (Note 6):		
General Obligation Bonds	\$ (255,397,855)	
Bond Anticipation Notes	(22,036,865)	
Certificates of Participation	(54,155,130)	
Capitalized lease obligations	(1,148,500)	
California Energy Commission Loan	(600,565)	
Qualified Zone Academy Bonds	(6,635,000)	
Post-employment Healthcare benefits	(7,475,837)	
Compensated absences	<u>(3,517,336)</u>	
		(350,967,088)
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:		2,073,086
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.		(5,106,041)
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.		307,515
Costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as assets in governmental funds.		<u>4,263,438</u>
Total net assets - governmental activities		<u>\$ 281,882,406</u>

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, 2009

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve Fund</u>	<u>All Non-Major Funds *</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue limit sources:						
State apportionment	\$ 161,159,409				\$ 1,951,495	\$ 163,110,904
Local sources	<u>35,738,308</u>					<u>35,738,308</u>
Total revenue limit	<u>196,897,717</u>				<u>1,951,495</u>	<u>198,849,212</u>
Federal sources	50,937,810				14,531,341	65,469,151
Other state sources	84,331,683				25,977,073	110,308,756
Other local sources	<u>7,168,699</u>	\$ 839,422	\$ 2,633,321	\$ 1,224,565	<u>20,815,817</u>	<u>32,681,824</u>
Total revenues	<u>339,335,909</u>	<u>839,422</u>	<u>2,633,321</u>	<u>1,224,565</u>	<u>63,275,726</u>	<u>407,308,943</u>
Expenditures:						
Certificated salaries	165,556,362				4,476,875	170,033,237
Classified salaries	50,184,846		20,766	103,826	5,899,253	56,208,691
Employee benefits	66,367,973		11,040	44,518	4,196,749	70,620,280
Books and supplies	20,490,896	767,385	(813)	1,435	7,163,770	28,422,673
Contract services and operating -expenditures	34,956,359	562,456	812,275	1,234,210	1,309,680	38,874,980
Capital outlay	27,932	27,540,614	2,910,874	4,641,457	2,909,622	38,030,499
Other outgo	116,177					116,177
Debt service:						
Principal retirement	485,162		1,417,046		5,630,702	7,532,910
Interest	<u>35,191</u>		<u>2,014,444</u>		<u>10,761,786</u>	<u>12,811,421</u>
Total expenditures	<u>338,220,898</u>	<u>28,870,455</u>	<u>7,185,632</u>	<u>6,025,446</u>	<u>42,348,437</u>	<u>422,650,868</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,115,011</u>	<u>(28,031,033)</u>	<u>(4,552,311)</u>	<u>(4,800,881)</u>	<u>20,927,289</u>	<u>(15,341,925)</u>
Other financing sources (uses):						
Operating transfers in	1,017,115	21,395,442		21,733,059	185,020	44,330,636
Operating transfers out	(635,020)	(21,733,059)			(22,412,557)	(44,780,636)
Proceeds from the issuance of long-term liabilities		<u>21,995,000</u>				<u>21,995,000</u>
Total other financing sources (uses)	<u>382,095</u>	<u>21,657,383</u>		<u>21,733,059</u>	<u>(22,227,537)</u>	<u>21,545,000</u>
Change in fund balances	1,497,106	(6,373,650)	(4,552,311)	16,932,178	(1,300,248)	6,203,075
Fund balances, July 1, 2008	<u>47,850,556</u>	<u>37,366,394</u>	<u>36,003,806</u>	<u>63,253,490</u>	<u>32,222,803</u>	<u>216,697,049</u>
Fund balances, June 30, 2009	<u>\$ 49,347,662</u>	<u>\$ 30,992,744</u>	<u>\$ 31,451,495</u>	<u>\$ 80,185,668</u>	<u>\$ 30,922,555</u>	<u>\$ 222,900,124</u>

* Refer to page 55.

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, 2009

Net change in fund balances - Total Governmental Funds	\$	6,203,075
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).	\$	35,368,696
In government funds, donated capital assets are not reported because they do not affect current financial resources. In government-wide statements, donated capital assets are reported as revenue and increases to capital assets, at their fair market value on the date of donation (Note 4).		35,018
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).		(10,638,612)
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. Amounts recognized in government funds as proceeds from debt, net of issue premium or discount, were (Note 6):		(21,995,000)
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).		7,532,910
In government funds, debt issue costs are recognized as expenditures in the period they are incurred. In government-wide statements, issue costs are amortized over the life of the debt.		27,559
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.		(151,930)
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.		(1,900,317)

(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, 2009

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:	\$	(1,630,620)	
In government funds, OPEB costs are recognized when when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 6).		(1,817,754)	
In government funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In government-wide statements, the premium or discount is amortized as interest over the life of the debt.		225,148	
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).		<u>240,796</u>	\$ <u>5,295,894</u>
Change in net assets of governmental activities			<u>\$ 11,498,969</u>

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, 2009

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 163,958,503	\$ 160,741,491	\$ 161,159,409	\$ 417,918
Local sources	<u>37,802,352</u>	<u>36,058,490</u>	<u>35,738,308</u>	<u>(320,182)</u>
Total revenue limit	<u>201,760,855</u>	<u>196,799,981</u>	<u>196,897,717</u>	<u>97,736</u>
Federal sources	28,670,113	46,330,264	50,937,810	4,607,546
Other state sources	83,347,894	89,511,158	84,331,683	(5,179,475)
Other local sources	<u>8,749,714</u>	<u>9,063,138</u>	<u>7,168,699</u>	<u>(1,894,439)</u>
Total revenues	<u>322,528,576</u>	<u>341,704,541</u>	<u>339,335,909</u>	<u>(2,368,632)</u>
Expenditures:				
Certificated salaries	151,800,966	165,577,752	165,556,362	21,390
Classified salaries	46,022,650	51,492,485	50,184,846	1,307,639
Employee benefits	63,435,445	69,387,134	66,367,973	3,019,161
Books and supplies	31,219,775	53,333,230	20,490,896	32,842,334
Contract services and operating expenditures	28,072,011	40,125,244	34,956,359	5,168,885
Capital outlay	34,473	42,823	27,932	14,891
Other outgo	37,941	37,941	116,177	(78,236)
Debt service:				
Principal retirement	686,421	700,017	485,162	214,855
Interest	<u>53,631</u>	<u>40,035</u>	<u>35,191</u>	<u>4,844</u>
Total expenditures	<u>321,363,313</u>	<u>380,736,661</u>	<u>338,220,898</u>	<u>42,515,763</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,165,263</u>	<u>(39,032,120)</u>	<u>1,115,011</u>	<u>40,147,131</u>
Other financing sources (uses):				
Operating transfers in	466,103	465,371	1,017,115	551,744
Operating transfers out	<u>(1,613,441)</u>	<u>(707,340)</u>	<u>(635,020)</u>	<u>72,320</u>
Total other financing sources (uses)	<u>(1,147,338)</u>	<u>(241,969)</u>	<u>382,095</u>	<u>624,064</u>
Change in fund balance	17,925	(39,274,089)	1,497,106	40,771,195
Fund balance, July 1, 2008	<u>47,850,556</u>	<u>47,850,556</u>	<u>47,850,556</u>	
Fund balance, June 30, 2009	<u>\$ 47,868,481</u>	<u>\$ 8,576,467</u>	<u>\$ 49,347,662</u>	<u>\$ 40,771,195</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, 2009

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 12,424,100
Cash with Fiscal Agent	500,000
Accounts receivable	353,401
Due from other funds	<u>450,000</u>
Total assets	<u>13,727,501</u>

LIABILITIES

Accounts payable	292,205
Claims liability	11,359,427
Due to other funds	<u>2,783</u>
Total liabilities	<u>11,654,415</u>

NET ASSETS

Restricted	<u><u>\$ 2,073,086</u></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, 2009

Operating revenues:	
Self-insurance premiums	\$ 16,433,751
Other local revenues	<u>2,840,236</u>
Total operating revenues	<u>19,273,987</u>
Operating expenses:	
Classified salaries	247,321
Employee benefits	93,982
Books and supplies	43,953
Contract services	<u>21,261,925</u>
Total operating expenses	<u>21,647,181</u>
Operating loss	(2,373,194)
Non-operating income:	
Interest income	292,574
Transfer from other fund	<u>450,000</u>
Total non-operating income	<u>742,574</u>
Change in net assets	(1,630,620)
Total net assets, July 1, 2008	<u>3,703,706</u>
Total net assets, June 30, 2009	<u><u>\$ 2,073,086</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, 2009

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 18,605,403
Cash paid for employee benefits	(23,007,106)
Cash paid for other expenses	<u>(590,572)</u>
Net cash used in operating activities	<u>(4,992,275)</u>
Cash flows provided by investing activities:	
Interest income received	<u>292,574</u>
Transfer from other fund	<u>450,000</u>
Decrease in cash and cash equivalents	(4,249,701)
Cash and cash equivalents, July 1, 2008	<u>17,173,801</u>
Cash and cash equivalents, June 30, 2009	<u>\$ 12,924,100</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ <u>(2,373,194)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
(Increase) decrease in:	
Accounts receivable	(226,050)
Amounts due from other funds	(442,534)
Increase (decrease) in:	
Accounts payable	(1,953,232)
Amount due to other funds	<u>2,735</u>
Total adjustments	<u>(2,619,081)</u>
Net cash used in operating activities	<u>\$ (4,992,275)</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, 2009

	Trust Fund	Agency Fund		Student Body Funds		Total
	Scholarship Trust					
ASSETS						
Cash on hand and in banks (Note 2)	\$ 883,309	\$	653,061	\$		1,536,370
LIABILITIES						
Due to student groups	_____		653,061			653,061
NET ASSETS						
Restricted (Note 7)	\$ 883,309	\$	-	\$		883,309

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

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
For the Year Ended June 30, 2009

	<u>Scholarship Trust</u>
Revenues:	
Other local sources	\$ 48,180
Expenditures:	
Contract services and operating expenditures	<u>36,707</u>
Excess of revenues over expenditures	11,473
Net assets, July 1, 2008	<u>871,836</u>
Net assets, June 30, 2009	<u><u>\$ 883,309</u></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, Special Reserve, County School Facilities 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 one Trust Fund. The Scholarship Trust Fund is 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 \$3,517,336 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 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, 2009 are reported at fair value and consisted of the following:

	Governmental Activities			
	Governmental Funds	Proprietary Fund	Total	Fiduciary Activities
Pooled Funds:				
Cash in County Treasury	\$ 68,998,056	\$ 12,424,100	\$ 81,422,156	
Cash in County Treasury - restricted for capital projects	115,203,941		115,203,941	
Cash awaiting deposit	16,371		16,371	
Total pooled funds	184,218,368	12,424,100	196,642,468	
Deposits:				
Cash on hand and in banks				\$ 1,536,370
Cash in revolving fund	72,500		72,500	
Total deposits	72,500		72,500	1,536,370
Investments:				
Cash with Fiscal Agent	25,475,558	500,000	25,975,558	
Total cash and investments	\$ 209,766,426	\$ 12,924,100	\$ 222,690,526	\$ 1,536,370

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, 2009, 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 \$250,000 by the Federal Depository Insurance Corporation (FDIC). As of June 30, 2009, the carrying amount of the District's accounts were \$1,608,870, and the bank balances were \$1,642,158. Of the bank balances, \$253,122 was covered by the FDIC insurance and \$1,389,036 was uninsured. Uninsured balances are fully collateralized by the banks in accordance with applicable law.

Investments

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

The Cash with Fiscal Agent in the Proprietary Fund represents cash segregated for the future payment of self-insured benefits. 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, 2009, the District had no significant interest rate risk related to cash and investments held.

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

2. CASH AND INVESTMENTS (Continued)

Credit Risk

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

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2009, 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, 2009 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 5,718,950	\$ 6,188,875
Building	285,018	14,417
Capital Facilities	707,929	984,490
Special Reserve		286,615
Non-Major Funds:		
Charter School	27,761	148,592
Adult Education	5,000,338	3,674,222
Child Development	2,245	177,711
Cafeteria	600	729,553
County School Facilities	14,417	
Proprietary Funds:		
Self-Insurance	<u>450,000</u>	<u>2,783</u>
Totals	<u><u>\$ 12,207,258</u></u>	<u><u>\$ 12,207,258</u></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 2008-2009 fiscal year were as follows:

Transfer from the General Fund to the Self Insurance Fund for self insurance claims at June 30, 2009.	\$ 450,000
Transfer from the General Fund to the Charter School Fund to cover IBML Charter High School Shortage.	6,650
Transfer from the General Fund to the Deferred Maintenance Fund for the required state match.	178,370
Transfer from the Building Fund to the Special Reserve Fund for Bond Anticipation Notes, Series 2009.	21,733,059
Transfer from the Adult Education Fund to the General Fund for indirect support.	222,496
Transfer from the Child Development Fund to the General Fund for indirect support.	150,450
Transfer from the Cafeteria Fund to the General Fund for indirect support.	644,169
Transfer from the County School Facilities Fund to the Building Fund for Spanos Elementary construction.	<u>21,395,442</u>
	<u>\$ 44,780,636</u>

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

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2009 is shown below:

	Balance July 1, 2008	Transfers and Additions	Transfers and Deductions	Balance June 30, 2009
<u>Governmental Activities</u>				
Land	\$ 21,169,097			\$ 21,169,097
Buildings	417,487,391	\$ 10,562,965		428,050,356
Equipment	12,845,333			12,845,333
Site Improvements	5,067,751	77,819		5,145,570
Work-in-process	<u>44,372,981</u>	<u>35,403,714</u>	<u>\$ (10,640,784)</u>	<u>69,135,911</u>
Totals, at cost	<u>500,942,553</u>	<u>46,044,498</u>	<u>(10,640,784)</u>	<u>536,346,267</u>
Less accumulated depreciation:				
Buildings	(106,430,816)	(9,536,209)		(115,967,025)
Site Improvements	(2,916,675)	(150,915)		(3,067,590)
Equipment	<u>(7,948,792)</u>	<u>(951,488)</u>		<u>(8,900,280)</u>
Total accumulated depreciation	<u>(117,296,283)</u>	<u>(10,638,612)</u>		<u>(127,934,895)</u>
Capital assets, net	<u>\$ 383,646,270</u>	<u>\$ 35,405,886</u>	<u>\$ (10,640,784)</u>	<u>\$ 408,411,372</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 9,648,161
Home to school	358,357
Food services	22,850
All other general administration	146,229
Plant services	59,796
Unallocated	<u>403,219</u>
Total depreciation expense	<u>\$ 10,638,612</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.

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

5. RISK MANAGEMENT/CLAIMS LIABILITIES (Continued)

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 March 19, 2009

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

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 13,290,628	\$ 13,290,628
Total incurred claims and claim adjustment expenses	13,000,959	4,203,645
Total payments	<u>(14,932,160)</u>	<u>(4,203,645)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 11,359,427</u>	<u>\$ 13,290,628</u>

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</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 735,000	\$ 937,819	\$ 1,672,819
2011	765,000	902,519	1,667,519
2012	800,000	861,269	1,661,269
2013	835,000	822,731	1,657,731
2014	875,000	786,444	1,661,444
2015-2019	5,045,000	3,291,172	8,336,172
2020-2024	6,465,000	1,945,625	8,410,625
2025-2027	<u>3,096,000</u>	<u>353,500</u>	<u>3,449,500</u>
	<u>\$ 18,616,000</u>	<u>\$ 9,901,079</u>	<u>\$ 28,517,079</u>

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

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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>
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	960,000	1,039,484	1,999,484
2014	995,000	1,001,084	1,996,084
2015-2019	5,640,000	4,293,256	9,933,256
2020-2024	7,035,000	2,753,628	9,788,628
2025-2028	<u>6,950,000</u>	<u>885,462</u>	<u>7,835,462</u>
	<u>\$ 24,240,000</u>	<u>\$ 13,280,901</u>	<u>\$ 37,520,901</u>

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>
2010	\$ 865,000	\$ 1,135,134	\$ 2,000,134
2011	900,000	1,109,184	2,009,184
2012	935,000	1,064,184	1,999,184
2013	965,000	1,036,134	2,001,134
2014	1,000,000	1,003,565	2,003,565
2015-2019	5,630,000	4,428,285	10,058,285
2020-2024	6,990,000	3,096,768	10,086,768
2025-2029	<u>8,805,000</u>	<u>1,298,620</u>	<u>10,103,620</u>
	<u>\$ 26,090,000</u>	<u>\$ 14,171,874</u>	<u>\$ 40,261,874</u>

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

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

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>
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	560,000	2,470,625	3,030,625
2014	725,000	2,444,925	3,169,925
2015-2019	6,580,000	11,543,374	18,123,374
2020-2024	13,180,000	9,408,425	22,588,425
2025-2029	22,765,000	5,613,670	28,378,670
2030-2031	<u>12,635,000</u>	<u>588,202</u>	<u>13,223,202</u>
	<u>\$ 57,020,000</u>	<u>\$ 39,565,596</u>	<u>\$ 96,585,596</u>

Series 2007:

On July 12, 2007, the District issued General Obligation Bonds, Series 2007, totaling \$60,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through August 2031 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,780,000	\$ 2,840,950	\$ 4,620,950
2011	1,805,000	2,769,250	4,574,250
2012	1,765,000	2,697,850	4,462,850
2013	1,830,000	2,625,950	4,455,950
2014	1,885,000	2,549,294	4,434,294
2015-2019	10,425,000	11,386,784	21,811,784
2020-2024	12,125,000	8,577,750	20,702,750
2025-2029	13,120,000	5,446,638	18,566,638
2030-2032	<u>15,265,000</u>	<u>1,505,625</u>	<u>16,770,625</u>
	<u>\$ 60,000,000</u>	<u>\$ 40,400,091</u>	<u>\$100,400,091</u>

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

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

2008 Series A:

On May 6, 2008, the District issued 2008 General Obligation Bonds, Series A, totaling \$65,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through August 2032 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 900,000	\$ 2,855,685	\$ 3,755,685
2011	1,600,000	2,811,175	4,411,175
2012	1,700,000	2,745,175	4,445,175
2013	1,800,000	2,675,175	4,475,175
2014	2,000,000	2,599,175	4,599,175
2015-2019	11,300,000	11,693,875	22,993,875
2020-2024	13,300,000	9,199,000	22,499,000
2025-2029	16,400,000	5,745,438	22,145,438
2030-2033	16,000,000	1,566,575	17,566,575
	<u>\$ 65,000,000</u>	<u>\$ 41,891,273</u>	<u>\$ 106,891,273</u>

Series 2009:

On February 1, 2009, the District issued Bond Anticipation Notes, Series 2009, totaling \$21,955,000. The 2009 Notes were issued for the purpose of financing costs relating to the acquisition and construction of education projects and facilities, funding capitalized interest through maturity, and paying cost of issuance. These Notes were issued in anticipation of the issuance of a series of general obligation bonds which were approved on the general election on February 5, 2008. The notes bear an interest rate of 4.00% and are scheduled to mature through February 2011 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010		\$ 851,366	\$ 851,366
2011	\$ 21,955,000	878,200	22,833,200
	<u>\$ 21,955,000</u>	<u>\$ 1,729,566</u>	<u>\$ 23,684,566</u>

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.

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

6. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (COPs) (Continued)

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:

<u>Year Ending June 30,</u>	<u>COPs Payments</u>
2010	\$ 230,000
2011	260,000
2012	295,000
2013	325,000
2014	390,000
2015-2019	3,195,000
2020-2024	7,105,000
2025-2029	9,075,000
2030-2034	<u>13,005,020</u>
Total payments	33,880,020
Less amount representing interest	<u>(22,297,437)</u>
Net present value of minimum payments	<u>\$ 11,582,583</u>

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>
2010	\$ 3,194,740
2011	3,164,140
2012	3,124,890
2013	3,099,390
2014	2,621,890
2015-2019	13,101,700
2020-2024	13,097,455
2025-2029	13,091,469
2030-2034	13,094,350
2035-2036	<u>5,238,450</u>
Total payments	72,828,474
Less amount representing interest	<u>(30,418,474)</u>
Net present value of minimum payments	<u>\$ 42,410,000</u>

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

6. LONG-TERM LIABILITIES (Continued)

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>
2010	\$ 428,376
2011	428,376
2012	<u>386,014</u>
Total payments	1,242,766
Less amount representing interest	<u>(94,266)</u>
Net minimum lease payments	<u>\$ 1,148,500</u>

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>
2010	\$ 422,770	\$ 16,907	\$ 439,677
2011	<u>177,795</u>	<u>4,556</u>	<u>182,351</u>
	<u>\$ 600,565</u>	<u>\$ 21,463</u>	<u>\$ 622,028</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, 2008</u>	<u>Interest Charge</u>	<u>Repay- ment</u>	<u>Balance June 30, 2009</u>
\$ 1,995	\$ -	\$ 1,995	\$ -

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

6. LONG-TERM LIABILITIES (Continued)

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.

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.

Post-Employment Healthcare 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, in accordance with contracts between the District and employee groups. As of June 30, 2009, 251 retirees 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.

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

6. LONG-TERM LIABILITIES (Continued)

Post-Employment Healthcare Benefits (Continued)

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 2,819,053
Interest on net OPEB obligation	282,904
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	3,101,957
Contributions made	<u>(1,284,203)</u>
Decrease in net OPEB obligation	1,817,754
Net OPEB obligation - beginning of year	<u>5,658,083</u>
Net OPEB obligation - end of year	<u><u>\$ 7,475,837</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2009 was as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2008	\$ 3,012,861	171.3%	\$ 5,658,083
June 30, 2009	\$ 3,101,957	41.4%	\$ 7,475,837

As of June 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$23.3 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$23.3. The covered payroll (annual payroll of active employees covered by the Plan) was \$211 million, and the ratio of the UAAL to the covered payroll was 11 percent.

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

6. LONG-TERM LIABILITIES (Continued)

Post-Retirement Healthcare Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 1, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 3 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, was 28 years.

STOCKTON UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2009 is shown below:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 256,301,000		\$ 5,335,000	\$ 250,966,000	\$ 5,130,000
General Obligation Bonds Premium	4,639,459		207,604	4,431,855	207,604
Bond Anticipation Notes		\$ 21,955,000		21,955,000	
Bond Anticipation Notes Premium		103,408	21,543	81,865	51,704
Certificates of Participation	55,409,629		1,417,046	53,992,583	1,456,268
Certificates of Participation Premium	168,643		6,096	162,547	6,096
Capitalized lease obligations	1,518,585		370,085	1,148,500	382,476
California Energy Commission Loan	1,009,349		408,784	600,565	422,770
State School Building Loans	1,995		1,995		
Qualified Zone Academy Bonds	6,635,000			6,635,000	
Post-employment healthcare benefits	5,658,083	3,101,957	1,284,203	7,475,837	1,654,943
Compensated absences	3,758,132		240,796	3,517,336	351,734
	<u>\$ 335,099,875</u>	<u>\$ 25,160,365</u>	<u>\$ 9,293,152</u>	<u>\$ 350,967,088</u>	<u>\$ 9,663,595</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 and Cafeteria 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.

7. RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2009:

	Governmental Activities	Fiduciary Funds
Restricted for revolving cash	\$ 72,500	
Restricted for prepaid expenditures	4,371,847	
Restricted for stores inventory	1,379,292	
Restricted for unspent categorical program revenues	20,396,269	
Restricted for special revenues	9,476,892	
Restricted for debt service	14,300,621	
Restricted for capital projects	16,036,982	
Restricted for self insurance	2,073,086	
Restricted for scholarships		\$ 883,309
Total restricted net assets	<u>\$ 68,107,489</u>	<u>\$ 883,309</u>

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

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.

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 2008-2009 was 9.428% 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, 2007, 2008 and 2009 were \$4,217,672, \$4,508,640 and \$4,878,439, 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, 100 Waterfront Place, West Sacramento, California 95605.

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

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2008-2009 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, 2007, 2008 and 2009 were \$12,861,183, \$12,957,852 and \$13,334,117, respectively, and equal 100% of the required contributions for each year.

9. JOINT POWERS AGREEMENTS

The District participates in two joint ventures under joint powers agreements.

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 (NCRReLIEF) for the operation of a common risk management and insurance program. NCRReLIEF is governed by a board consisting of representatives of member districts. The board controls the operations of NCRReLIEF, 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 NCRReLIEF for the year ended June 30, 2009 is as follows:

Total assets	\$ 58,768,412
Total liabilities	\$ 33,726,756
Total net assets	\$ 20,041,656
Total revenues	\$ 37,856,693
Total expenditures	\$ 29,885,518
Change in net assets	\$ 7,971,175

School Project for Utility Rate Reduction

The District is also a member in School Project for Utility Rate Reduction (SPURR), which is a California joint powers authority, whose members are California public K-12 school districts, community college districts and county offices of education. SPURR provides members access to the wholesale natural gas market that would otherwise be unavailable to them.

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

9. JOINT POWERS AGREEMENTS

School Project for Utility Rate Reduction (Continued)

Condensed audit information for SPURR for the year ended June 30, 2008 (the latest information available) is as follows:

Total assets	\$ 17,176,169
Total liabilities	\$ 14,094,145
Total revenue	\$ 44,681,843
Total expenditures	\$ 44,537,438
Change in net assets	\$ 144,405
Net assets	\$ 3,082,024

10. 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.

For example, the audit adjustment to accrue for a \$2 million legal settlement expense is for the "Adair Settlement." This was a legal settlement between the District and some members of the Stockton Teachers Association (STA) regarding a salary compression issue that surfaced during the 2000-2001 school year. The ruling required the District to compensate those STA members who were impacted by the salary compression. Although the ruling occurred during the 2008-09 school year, STA members were compensated during the 2009-10 school year. Recognition of the contingency does not increase the District financial obligation because compensation was paid to those affected STA members in August of the 2009-10 school year.

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.

11. SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 1, 2009, the District issued Tax and Revenue Anticipation Notes (TRANS) totaling \$20,175,413, which includes interest totaling \$485,413. The TRANS are payable only out of taxes, income, revenue, cash receipts and other monies which are received by the District for its General Fund and are attributable to the fiscal year 2009-2010 and legally available for payment thereof. The TRANS are secured by a pledge of certain unrestricted revenues received by the District issuing such TRANS for its General Fund attributable to the fiscal year 2009-2010, and the TRANS constitute a first lien and charge payable from the first monies received by the District from such pledged revenues. The TRANS are scheduled to mature on July 1, 2010.

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

11. SUBSEQUENT EVENTS (Continued)

State Budget

On July 28, 2009, Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009.

The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided funding in 2009-10 to backfill \$1.5 billion of these cuts by making an appropriation from the State's General Fund to repay the 2008-09 reversion of the undistributed categorical program balances.

The accounting treatment for the funding that reverted to the State's General Fund was not formally prescribed by the State Controller's Office until November 2009. However, school districts were required to close out the 2008-09 fiscal year financial records and report the information to the District pursuant to the timelines specified in Education Code 42100(a) and Government Code 7906(f) which is on or before September 15th each year. In the absence of guidance, the District complied with the code sections cited above and submitted timely financial reports, which included the accrual of the reverted amounts. The inclusion is consistent with California Education Code Section 33128.1, which states, "a local educational agency may recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year."

In accordance with the requirements of Government Accounting Standards Board Statement No. 33, the audited financial statements of the District do not include the revenues and related receivables associated with the District's portion of the unallocated, unexpended or un-liquidated categorical program balances identified in the July 2009 State Budget package.

The District anticipates that, regardless of whether the funds are recognized as revenue in the 2008-09 or 2009-10 fiscal years; there will be no impact on the ending fund balances at June 30, 2010.

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2009

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	County School Facilities Fund	Mello-Roos Fund	Bond Interest and Redemption Fund	Tax Override Fund	Debt Service Fund	Total
ASSETS											
Cash in County Treasury	\$ 12,641	\$ 2,300,557	\$ 1,638,519	\$ 5,620,153	\$ 1,253,741	\$ 16,839	\$ 2,149,527	\$ 14,221,069	\$ 12,944	\$ 66,424	\$ 27,292,414
Cash awaiting deposit		2,000		14,371							16,371
Cash in revolving fund				2,500							2,500
Cash with Fiscal Agent	259,166	389,849	37,358	369,878	3,694	126	4,887		31	4,702,817	4,702,817
Accounts receivable		50,000								153	1,065,142
Prepaid expenditures				218,346							50,000
Store inventory				600		14,417					218,346
Due from other funds	27,761	5,000,338	2,245								5,045,361
Total assets	\$ 299,568	\$ 7,742,744	\$ 1,678,122	\$ 6,225,848	\$ 1,257,435	\$ 31,382	\$ 2,154,414	\$ 14,221,069	\$ 12,975	\$ 4,769,394	\$ 38,392,951
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ 149,580	\$ 224,555	\$ 60,465	\$ 152,699		\$ 14,417					\$ 601,716
Deferred revenue	1,396	1,997,133	1,997,133	140,073							2,138,602
Due to other funds	148,592	3,674,222	177,711	729,553							4,730,078
Total liabilities	299,568	3,898,777	2,235,309	1,022,325		14,417					7,470,396
Fund balances		3,843,967	(557,187)	5,203,523	\$ 1,257,435	16,965	\$ 2,154,414	\$ 14,221,069	\$ 12,975	\$ 4,769,394	30,922,555
Total liabilities and fund balances	\$ 299,568	\$ 7,742,744	\$ 1,678,122	\$ 6,225,848	\$ 1,257,435	\$ 31,382	\$ 2,154,414	\$ 14,221,069	\$ 12,975	\$ 4,769,394	\$ 38,392,951

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, 2009

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	County School Facilities Fund	Mello-Roos Fund	Bond Interest and Redemption Fund	Tax Override Fund	Debt Service Fund	Total
Revenues:											
Revenue limit sources:											
State apportionment	\$ 1,951,495	\$ 667,615	\$ 15,128	\$ 13,848,598							\$ 1,951,495
Federal sources		(142,967)	3,132,471	1,179,447		\$ 21,395,442		\$ 251,798			14,531,341
Other state sources	160,882	239,904	500	1,162,635	\$ 38,263	13,183	\$ 38,240	19,101,557	\$ 172	\$ 218,361	25,977,073
Other local sources	3,002										20,815,817
Total revenues	<u>2,115,379</u>	<u>764,552</u>	<u>3,148,099</u>	<u>16,190,680</u>	<u>38,263</u>	<u>21,408,625</u>	<u>38,240</u>	<u>19,353,355</u>	<u>172</u>	<u>218,361</u>	<u>63,275,726</u>
Expenditures:											
Certificated salaries	1,040,460	2,110,409	1,326,006								4,476,875
Classified salaries	119,066	288,972	866,847	4,624,368							5,899,253
Employee benefits	347,300	553,369	874,956	2,421,124							4,196,749
Books and supplies	174,106	1,259,467	358,960	5,371,237							7,163,770
Contract services and operating expenditures	450,091	279,811	324,485	228,579	26,714						1,309,680
Capital outlay		48,702	1,119		2,859,801						2,909,622
Debt service:											
Principal retirement				293,707				5,335,000	1,995		5,630,702
Interest				48,305				10,713,481			10,761,786
Total expenditures	<u>2,131,023</u>	<u>4,540,730</u>	<u>3,752,373</u>	<u>12,987,320</u>	<u>2,886,515</u>	<u>21,408,625</u>	<u>38,240</u>	<u>3,304,874</u>	<u>(1,823)</u>	<u>218,361</u>	<u>42,348,437</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(15,644)</u>	<u>(3,776,178)</u>	<u>(604,274)</u>	<u>3,203,360</u>	<u>(2,848,252)</u>	<u>21,408,625</u>	<u>38,240</u>	<u>3,304,874</u>	<u>(1,823)</u>	<u>218,361</u>	<u>20,927,289</u>
Other financing sources (uses):											
Operating transfers in	6,650	(222,496)	(150,450)	(644,169)	178,370						185,020
Operating transfers out						(21,395,442)					(22,412,557)
Total other financing sources (uses)	<u>6,650</u>	<u>(222,496)</u>	<u>(150,450)</u>	<u>(644,169)</u>	<u>178,370</u>	<u>(21,395,442)</u>					<u>(22,227,537)</u>
Net change in fund balances	(8,994)	(3,998,674)	(754,724)	2,559,191	(2,669,882)	13,183	38,240	3,304,874	(1,823)	218,361	(1,300,248)
Fund balances, July 1, 2008	8,994	7,842,641	197,537	2,644,332	3,927,317	3,782	2,116,174	10,916,195	14,798	4,551,033	32,222,803
Fund balances, June 30, 2009	\$ -	\$ 3,843,967	\$ (557,187)	\$ 5,203,523	\$ 1,257,435	\$ 16,965	\$ 2,154,414	\$ 14,221,069	\$ 12,975	\$ 4,769,394	\$ 30,922,555

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

STOCKTON UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2009

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>
Daniel Castillo	President	2010
Jose A. Morales	Vice President	2012
Gloria Allen	Member	2012
Colleen Boardman	Member	2012
Beverly Fitch McCarthy	Member	2010
William (Bill) Ross	Member	2010
Sal Ramirez	Member	2010

ADMINISTRATION

Anthony Amato
Superintendent

Vacant
Assistant Superintendent, Human Resources

Vacant
Chief Financial Officer

Wayne Martin
Executive Director, Business Services

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2009

	<u>Second Period Report (Revised)</u>	<u>Annual Report</u>
DISTRICT		
Elementary:		
Kindergarten	2,844	2,850
First through Third	8,551	8,550
Fourth through Eighth	13,288	13,256
Home and Hospital	2	2
Special Education	<u>752</u>	<u>757</u>
Total Elementary	<u>25,437</u>	<u>25,415</u>
Secondary:		
Regular Classes	8,357	8,253
Special Education	433	430
Compulsory Continuation Education	220	219
Home and Hospital	12	12
Opportunity School	<u>9</u>	<u>11</u>
Total Secondary	<u>9,031</u>	<u>8,925</u>
Classes for Adults:		
Concurrently Enrolled	75	69
Classes for Adults	<u>1,715</u>	<u>1,669</u>
Total for Adults	<u>1,790</u>	<u>1,738</u>
	<u>36,258</u>	<u>36,078</u>
CHARTER SCHOOL - CLASSROOM BASED		
Secondary:		
Regular classes	<u>276</u>	<u>272</u>
	<u>Hours of Attendance</u>	
Summer School:		
Elementary	171,512	171,512
Secondary	<u>200,952</u>	<u>200,952</u>
	<u>372,464</u>	<u>372,464</u>

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2009

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2008-09 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
DISTRICT					
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	54,900	180	In Compliance (1)
Grade 8	54,000	58,500	54,900	180	In Compliance (1)
Grade 9	64,800	64,980	65,000	180	In Compliance
Grade 10	64,800	64,980	65,000	180	In Compliance
Grade 11	64,800	64,980	65,000	180	In Compliance
Grade 12	64,800	64,980	65,000	180	In Compliance

(1) The District offers K-8 education, therefore, the actual number of minutes was reduced in the current year. The District is utilizing the weighted average method of calculating instructional minutes for seventh and eighth grades during the transition. Using the weighted average methodology, the District is in compliance with the instructional minutes requirements.

CHARTER SCHOOL

Grade 9	64,800	N/A	64,924	180	In Compliance
Grade 10	64,800	N/A	64,924	180	In Compliance
Grade 11	64,800	N/A	64,924	180	In Compliance
Grade 12	64,800	N/A	64,924	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, 2009

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<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	\$ 6,274,866
84.173	Special Education Preschool Grants	13430	202,415
84.027A	Special Education IDEA: Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	361,156
84.173A	Special Education IDEA Preschool Staff Development, Part B, Sec 619	13431	<u>1,881</u>
Subtotal Special Education Cluster			<u>6,840,318</u>
Title I Cluster:			
84.010	NCLB: Title I, Part A, Basic Grants Low Income	14039	16,922,527
84.010	NCLB: Title I Local Delinquent Programs, Part D	13798	42
84.010	NCLB: Title I, Part A, Program Improvement LEA Corrective Action, Extensive Performance Problems	14955	<u>2,489,046</u>
Subtotal Title I Cluster			<u>19,411,615</u>
84.002	Adult Education Priority 1 -3	13973	232,127
84.002	Adult Education Priority 4, Family Literacy	13977	78,075
84.002	Adult Education Priority 5 Adult Secondary Education	13978	35,247
84.002	Adult Education English Literacy and Citizenship	14109	322,166
84.181	Special Education IDEA Early Intervention	23761	67,389
84.350a	Transition to Teaching Program	-	213,897
84.334	Gear It Up	10088	32,019
84.215	Smaller Learning Communities	-	291,225
84.215E	Elementary and Secondary Counseling Demonstration Grant		406,787
84.298A	Title VI Innovative Education Program	14354	191,082
84.196	Title X McKinney Vento Homeless Assistance	24166	75,000
84.060	Indian Education	10011	421,236
84.367	NCLB: Title II Part A Improving Teacher Quality	14341	6,175,081
84.367	Principal Training	14341	
84.365	NCLB: Title III Immigrant Education Program	14346	73,033
84.365	NCLB Title III Limited English Proficiency	10084	1,080,563
84.318	Title II Part B CAMSP	14512	36,734
84.318	Title II Part D Enhancing Education through Technology	14368	130,057
84.048	Vocational Education - Carl Perkins	13924	424,263
84.186	Title IV Safe and Drug Free Schools	14347	233,321
84.287	Twenty First Century Learning Centers	14349	411,036
84.369	Other Federal - SB1453 CSIS Central Operations	-	189,119
84.394	ARRA: State Fiscal Stabilization Funds	25008	<u>14,145,028</u>
Total U.S. Department of Education			<u>51,516,418</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2009

<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>			
93.778	Medical assistance Program	10013	\$ <u>89,006</u>
<u>U.S. Department of Agriculture</u>			
10.555	National School Lunch Program	13396	<u>13,863,727</u>
	Totals		<u>\$ 65,469,151</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, 2009

	General Fund	Building Fund	Special Reserve Fund	Adult Education Fund	Child Development Fund	Self-Insurance Fund
June 30, 2009 Unaudited Actual Financial Report Ending Fund Balance	\$ 58,880,155	\$ 30,707,726	\$ 80,470,686	\$ 3,889,694	\$ 42,132	\$ 159,263
Audit adjustment to remove the accounts receivable and associated revenue for categorical program funds unappropriated by the State of California (Note 11):						
7-12 Counseling	(1,085,502)					
After School Education and Safety	(368,977)					
Alternative Credentialing	(15,540)					
Arts & Music Block Grant	(212,621)					
CalSAFE - Academic & Support	(112,304)					
CalSAFE - Child Care	(91,847)					
Class Size Reduction	(1,602)					
Department of Mental Health	(58,587)					
Early Ed for Individuals with Except Needs	(272,027)					
GATE	(5,056)					
Home to School Deferral	(543,171)					
International Baccalaureate	(3,065)					
Math and Reading Professional Development	(500,487)					
Partnership Academies	(40,500)					
Peer Review/Staff Development	(28,666)					
ROC/P	(45,334)					
School Safety Deferral	(520,037)					
School Safety Competitive Grant	(823,882)					
Special Education Apportionments	(2,648,149)					
Special Ed - DDS Early Intervention	(25,784)					
Special Ed - Infant Programs	(11,697)					
Special Ed - In Service Training	(3,654)					
Special Ed - Low Incidence Services	(2,979)					
Special Ed - Workability	(111,025)					
Adult Education				(45,727)	(594,334)	
Preschool Child Development					(4,985)	
Preschool Expansion Program					(599,319)	
Subtotal	(7,532,493)			(45,727)		
Audit Adjustment to accrue for legal settlement expenses (Note 10)	(2,000,000)					
Reclassification of refund for Spanos Elementary (Measure C) project		285,018	(285,018)			
To adjust workers' compensation claim liability to agree to actuarial study						
Total adjustments	(9,532,493)	285,018	(285,018)	(45,727)	(599,319)	1,913,823
June 30, 2009 Audited Financial Statements Ending Fund Balance	\$ 49,347,662	\$ 30,992,744	\$ 80,185,668	\$ 3,843,967	\$ (557,187)	\$ 2,073,086

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2009

	(Budget) 2010	2009	2008	2007
<u>General Fund</u>				
Revenues and other financing sources	\$ 328,645,423	\$ 340,353,024	\$ 342,971,332	\$ 335,002,867
Expenditures	334,450,375	338,220,898	342,904,591	317,805,158
Other uses and transfers out	<u>78,970</u>	<u>635,020</u>	<u>1,729,693</u>	<u>1,534,471</u>
Total outgo	<u>334,529,345</u>	<u>338,855,918</u>	<u>344,634,284</u>	<u>319,339,629</u>
Change in fund balance	<u>\$ (5,883,922)</u>	<u>\$ 1,497,106</u>	<u>\$ (1,662,952)</u>	<u>\$ 15,663,238</u>
Ending fund balance	<u>\$ 43,463,740</u>	<u>\$ 49,347,662</u>	<u>\$ 47,850,556</u>	<u>\$ 49,513,508</u>
Available reserves	<u>\$ 14,177,163</u>	<u>\$ 10,246,289</u>	<u>\$ 21,019,340</u>	<u>\$ 18,487,343</u>
Designated for economic uncertainties	<u>\$ 6,690,587</u>	<u>\$ 6,716,777</u>	<u>\$ 6,876,337</u>	<u>\$ -</u>
Undesignated fund balance	<u>\$ 7,486,576</u>	<u>\$ 3,529,512</u>	<u>\$ 14,143,003</u>	<u>\$ 18,487,343</u>
Available reserves as percentages of total outgo	<u>4.00%</u>	<u>3.00%</u>	<u>6.10%</u>	<u>5.79%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 341,303,493</u>	<u>\$ 350,967,088</u>	<u>\$ 339,179,892</u>	<u>\$ 213,673,107</u>
Average daily attendance at P-2, excluding Adult and Charter School	<u>34,524</u>	<u>34,468</u>	<u>34,764</u>	<u>34,936</u>

The General Fund fund balance has increased by \$15,497,392 over the past three years. The District has incurred operating surpluses in two the past three years, and anticipates incurring an operating deficit during the 2009-2010 fiscal year. The fiscal year 2009-2010 budget projects a decrease of \$5,883,922. 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, 2009, the District has met this requirement.

Total long-term liabilities have increased by \$137,293,981 over the past two years, due primarily to the issuance of General Obligation Bonds, Certificates of Participation and Bond Anticipation Notes (Note 6 to the financial statements).

Average daily attendance has decreased by 468 over the past two years. The District anticipates an increase of 56 ADA for the 2009-2010 fiscal year.

See accompanying notes to
supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2009

Charter Schools Chartered by District

Institute of Business, Management and Law
Aspire Langston Hughes Academy School
Aspire Rosa Parks Academy
California Virtual Academy at San Joaquin

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

Included in Charter Fund
Separate Report
Separate Report
Separate Report

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 2009-2010 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.

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, 2009, 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, 2009. 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
Independent Study	23	No, see below
Continuation Education	10	Yes
Adult Education	9	No, see below
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	No, see below
Grades K-8	1	No, see below
Grades 9-12	1	No, see below
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No, see below
Mathematics and Reading Professional Development	4	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

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

(Continued)

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	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 procedures related to Independent Study because the District's reported ADA was below the materiality level that requires testing.

We did not perform any procedures related to Adult Education, Regional Occupational Center and Programs, Morgan Hart Class Size Reduction Program, Instructional Materials: Grades K-8 Only or Instructional Materials: Grades 9-12 Only or Mathematics and Reading Professional Development as these programs are not required to be audited per flexibility provisions in SBx3 4.

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 Program because the District does not offer this program.

We performed procedure (a) of Section 19828.3 related to Instructional Materials: General Requirements. However, we did not perform procedures (b), (c) and (e) of Section 19828.3 for the Instructional Materials per the flexibility provisions in SBx3 4.

We did not perform any procedures related to Early Retirement Incentive Program because the District did not offer this program in the current year.

The 2008-2009 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, 2009. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2008-2009 Audit Guide relating to the comparison of tested data from the 2008-2009 fiscal year to the 2008-2009 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.

We did not perform any procedures related to After School Education and Safety Program - Before School because the District does not operate a before school program.

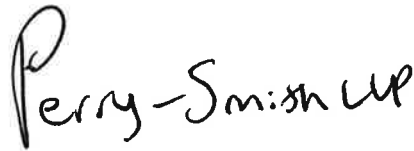
**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(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, 2009, 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.

Handwritten signature in black ink that reads "Perry-Smith" with a stylized flourish at the end.

Sacramento, California
December 8, 2009

**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, 2009, and have issued our report thereon dated December 8, 2009. 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 8, 2009

**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, 2009. 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, 2009.

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.

Perry-Smith WP

Sacramento, California
December 8, 2009

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

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>
84.010 84.394	NCLB: Title I Cluster ARRA: State Fiscal Stabilization Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,964,075

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, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

1. INTERNAL CONTROL - STUDENT BODY (30000)

Criteria

Internal Controls-Safeguarding of Assets.

Conditions

At various school sites selected for testing of Associated Student Body financial activity, common items were noted:

- Cash receipts schedules showing the number of items sold, price per item and the cash collected are not prepared.
- Logs are not used to track the issuance of sub-receipt books.
- Cash count forms are not used to support deposits.
- Deposits are not made on a timely basis.
- Profit and loss statements are not prepared for the student store.

Effect

ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

- ASB Advisor should collect supporting schedule from the Activities Coordinator which should support the funds collected.
- Receipt books used by staff should be tracked using a receipt book log.
- Cash count forms should be used to reconcile all pre-numbered receipts to deposits.
- District should enforce a policy to have deposits made on a timely basis (at least bi-weekly).
- Monthly profit and loss statements for student store should be prepared and reviewed by an independent individual.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

1. INTERNAL CONTROL - STUDENT BODY (30000) (Continued)

Corrective Action Plan

The District's internal audit staff will review the conditions and recommendations with the applicable sites. Follow-up visits will be made to determine that the recommendations have been implemented.

Training will be provided to all sites to remind them of stated District procedures pertaining to cash handling, maintaining adequate support for funds collected, and reporting results from student store operations.

STOCKTON UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2009

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, 2009

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2. STATE COMPLIANCE - ATTENDANCE (10000)

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 attendance reported to the State.

Condition

At Grant Elementary School, one student was improperly claimed for apportionment for one day.

At San Joaquin Elementary School, one student was improperly claimed for apportionment for one day.

Effect

The effect of this condition is an extrapolated overstatement of 1.83 ADA.

Cause

The errors were the result of clerical errors in accounting for attendance.

Fiscal Impact

Because the District is in declining enrollment and prior year ADA is used for the revenue limit calculation, there is no current year fiscal impact.

Recommendation

The District should revise the Second Period Report of Attendance removing the disallowed ADA. Also, reports at the school sites should be reviewed to ensure the attendance reported is accurate.

Corrective Action Plan

The District has revised the Second Period Report of Attendance. The revised totals are presented in the Schedule of Average Daily Attendance section of this report.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2009

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2008-1</p> <p>At various school sites, we noted the following deficiencies with controls surrounding Associated Student Body financial activity:</p> <ul style="list-style-type: none"> • Receipt books are not used in the collection of receipts or are not tracked using a log. • Profit and loss statements are not prepared to record financial activity of the student stores. • Student store merchandise is not inventoried on a regular basis. <p>The District should implement and enforce internal controls, including:</p> <ul style="list-style-type: none"> • Receipt books should be used to record the initial receipt of cash. • Receipt books issued should be tracked using a log. • ASB Advisor should issue a numbered receipt once money is collected. • Cash count sheets should be maintained and reconciled to deposits. • Inventory counts should be periodically performed and reviewed by an independent individual. • Profit and loss statements should be prepared, monthly and reviewed by upper management (at least the principal). 	<p>Not implemented.</p>	<p>See current year finding 2009-1.</p>
<p>2008-2</p> <p>At one elementary school, two students were improperly counted as present for a total error of two days of apportionment. The error was caused by the scantron reader used to account for attendance. At another elementary school, two students were improperly counted as present for a total two days of apportionment when the District had records that the students were actually absent.</p>	<p>Not implemented.</p>	<p>See current year finding 2009-2.</p>

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
(Continued)
Year Ended June 30, 2009

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2008-2 (Continued)		
The District should implement procedures to ensure that attendance records and excuse notes are updated to accurately reflect if a student is present or absent. Additionally, the District should revise and re-submit the Period Two Report of Attendance to reflect the removal of the disallowed ADA.		
2008-3	Implemented.	
There were two students enrolled in multiple programs that generated more than one ADA per student.		
The District should implement controls and procedures to review attendance records to ensure students are not generating more than one ADA.		
2008-4	Implemented.	
One employee who was eligible to elect into CalSTRS was deemed ineligible by the District due to failure to return the STRS election form in a timely manner.		
All documents should be maintained for the election of CalSTRS in the future in the employee's personnel file to evidence that they are compliant with State requirements.		
2008-5	Implemented.	
The resolution meeting was not held until November 13, 2007, which exceeded the eight week requirement.		
In future years, the Board should pass the resolution within eight weeks from the first day of school to ensure compliance with the Education Code.		