

SEPARATE COVER ITEM 14.1.1

Annual Audit

MEETING: JANUARY 25, 2011

**TRACY UNIFIED
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2010**

TRACY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2010

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	20
Fiduciary Fund - Statement of Net Assets	21
Notes to Financial Statements	22

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	47
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	48

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	50
Local Education Agency Organization Structure	52
Schedule of Average Daily Attendance	53
Schedule of Instructional Time	54
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	55
Schedule of Financial Trends and Analysis	56
Schedule of Charter Schools	57
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	60
Note to Supplementary Information	62

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	65
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	67
Report on State Compliance	69

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	72
Financial Statement Findings	73
Federal Award Findings and Questioned Costs	75
State Award Findings and Questioned Costs	76
Summary Schedule of Prior Audit Findings	77

FINANCIAL SECTION



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Tracy Unified School District
Tracy, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tracy Unified School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Tracy Unified School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison and other postemployment information as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 14, 2010

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

This section of Tracy Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term liabilities). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Tracy Unified School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or *financial position*. Over time, increases or decreases in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

The relationship between revenues and expenses is the District's *operating results*. Since the Governing Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we report the District activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities. The District's fiduciary activities are reported in separate *Statement of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$301.3 million for the fiscal year ended June 30, 2010 as compared to 306.1 million for the fiscal year ended 2009. Of this amount, \$14.9 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

TABLE 1

(Amounts in millions)

	Governmental Activities	
	2010	2009
Current and other assets	\$ 88.0	\$ 116.5
Capital assets	292.3	267.0
Total Assets	380.3	383.5
Current liabilities	16.3	14.0
Long-term debt	62.7	63.4
Total Liabilities	79.0	77.4
Net assets		
Invested in capital assets, net of related debt	251.0	235.8
Restricted	35.4	60.1
Unrestricted	14.9	10.2
Total Net Assets	\$ 301.3	\$ 306.1

The \$14.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

TABLE 2

(Amounts in millions)

	Governmental Activities	
	2010	2009
Revenues		
Program revenues:		
Charges for services	\$ 3.5	\$ 4.8
Operating grants and contributions	22.1	17.7
Capital grants and contributions	2.5	6.1
General revenues:		
Federal and State aid	68.7	77.9
Property taxes	30.0	33.0
Other general revenues	5.8	9.8
Total Revenues	132.6	149.3
Expenses		
Instruction-related	99.2	103.4
Student support services	12.2	11.5
Administration	5.0	7.0
Maintenance and operations	12.6	12.7
Other	8.3	4.5
Total Expenses	137.3	139.1
Change in Net Assets	\$ (4.7)	\$ 10.2

As reported in the Statement of Activities on page 14, the cost of all of our governmental activities this year was \$137.3 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$30.0 million because the cost was paid by those who benefited from the programs (\$3.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$24.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$68.7 million in State and Federal aid, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions: regular instruction, instruction related activities, pupil services, general administration, plant services and construction, and ancillary and community services, and other, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

TABLE 3

(Amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction	\$ 84.0	\$ 87.2	\$ 69.3	\$ 71.9
Instruction related activities	15.1	16.2	13.1	14.3
Pupil services	12.2	11.5	5.7	6.1
General administration	5.0	7.0	4.1	6.4
Plant services and construction	12.6	12.7	12.4	12.7
Ancillary and community service	1.2	1.2	1.2	1.2
Other	7.2	3.3	3.3	(2.3)
Totals	\$ 137.3	\$ 139.1	\$ 109.1	\$ 110.3

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$73.9 million, which is a decrease of \$29.8 million from last year (Table 4).

TABLE 4

(Amounts in millions)

	Fund Balance	
	2010	2009
General	\$ 22.7	\$ 19.7
Building	20.2	31.1
Capital Facilities	8.7	14.0
County School Facilities	7.3	21.1
Adult Education	0.3	-
Cafeteria	2.4	2.4
Deferred Maintenance	2.6	1.5
Special Reserve	6.4	11.4
Bond Interest and Redemption	3.3	2.5
Totals	\$ 73.9	\$ 103.7

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

The primary reasons for the changes between 2009 and 2010 are:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$3 million to \$22.7 million. This increase is the net result of reduced expenditures, an inter-fund transfer from the Special Reserve Fund, and the receipt of ARRA: State Stabilization Fund resources. During the 2009-10 fiscal year, the District reduced its expenditures in an attempt to offset the consequences of significant reductions to the California State Budget.
- The Building Fund decreased \$10.9 million to \$20.2 million. The decrease is the result of inter-fund transfers to County School Facilities Fund
- The County School Facilities Fund decreased \$13.8 million to \$7.3 million. This decrease was primarily due to funding construction projects including Kimball High School and Tracy High School.
- The Capital Facilities Fund decreased \$5.3 million to \$8.7 million. The decrease is the result of inter-fund transfers to the County School Facilities Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. The final amendment to the budget was adopted in June, 2010. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 47.

The primary reasons for the changes in the revenues and expenditures between the original and final budgets and the actual amounts are:

- \$5.3 million of restricted program (categorical) funds were not spent during the current year as projected in the final budget. These amounts will be expended in future years.
- Due to efforts to reduce expenditures, \$2.8 million of unrestricted funds were not spent during the current year as projected in the final budget. These amounts will be expended in future years in an effort to lessen the impact of further budget reductions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$292.3 million in a broad range of capital assets, including land and equipment, construction in progress, and building and improvements. This amount represents a net increase (including additions, deductions, of \$25.3 million, or 9 percent, from last year (Table 5).

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

TABLE 5

(Amounts in millions)

	Capital Assets	
	2010	2009
Land and construction in progress	\$ 120.6	\$ 133.3
Buildings and improvements	236.9	194.0
Equipment	9.7	8.8
Subtotal	367.2	336.1
Accumulated Depreciation	(74.9)	(69.1)
Net Capital Assets	\$ 292.3	\$ 267.0

This year's additions of \$25.3 million included the continuation of construction projects, primarily at Tracy High, West High, and Kimball High Schools and the purchase of equipment and vehicles.

Several capital projects are planned for the 2010-2011 year. We do not expect full completion of most of these projects; consequently we anticipate \$66 million in capital additions for the 2010-11 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Obligations

The District's obligations include general obligations bonds, compensated absences, capital leases and other postemployment benefits. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements. The major increase in long-term obligations is due to the issuance of general obligation bonds during the year.

TABLE 6

(Amounts in millions)

	Long Term Obligations	
	2010	2009
General obligation bonds (financed with property taxes)	\$ 60.3	\$ 60.8
Compensated absences	0.1	0.2
Capital leases	0.1	0.2
Supplemental early retirement plan	1.1	1.3
Other postemployment benefits	2.1	1.8
Totals	\$ 63.7	\$ 64.3

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-2010 ARE NOTED BELOW:

- Successfully completed construction and opened district's third comprehensive high school, John C. Kimball High. The school was opened with freshmen and sophomore students attending a fully-equipped high school campus.
- Resourcefully started work on additional projects of Measure E, the 2006 \$51 million bond to rebuild and repair Tracy High School and complete West High School. These projects include the theater at West High and the new cafeteria and library buildings at Tracy High.
- Continued planning the remaining projects of the Measure E project list and made significant process in each area.
- Sustained research and planning for projects of Measure S, the 2008 \$43.1 million school bond to address the most critical renovation and modernization needs at the District's oldest elementary and middle schools. Measure S funds will be used to upgrade technology and provide security systems to enhance student safety in all of the schools.
- Completed a number of technology additions with Measure S funds.
- Effectively carried out \$12.9 million in budget reductions due to decreases in state funding. Used creative ideas, a hiring and spending freeze and efficient use of categorical funds to generate fiscal flexibility.
- Advanced work on implementing "Continuous Improvement Model" through continued implementation of the DataWise Data Warehouse system allowing teachers and administrators quick and easy access to student assessment data. Also continued Data Teams at the district and site level allowing district and sites to effectively analyze data on a regular basis in order to monitor student achievement and program effectiveness.
- Emphasized the increased use of the data warehouse, DataWise, to track student assessment information including formative and summative assessments. A district wide assessment calendar was developed to schedule the administration and entry of scores for district formative assessments.
- Continued the ExCEL program developed by the Hesperia School District at a number of school sites.
- Provided teachers intensive English Language Learner training, new materials and programs to specifically assist this population. Continued EL training program with the San Joaquin County Office of Education.
- Continued to refine and improve the use of: Open Court and Holt standards aligned materials; Lectura language arts materials for Spanish speakers; and a variety of curricular materials for English language development including: Visions, Shining Star and Santillana.
- Continued to offer CAHSEE remediation courses and PLATO software to assist students in need of remediation.
- Continued a sustained focus and study of diversity in the district and research into best practices to more adequately and appropriately serve the diverse population of the community.
- Continued the effective Cyber High online credit recovery system.
- Continued offering AVID program for grades 7-12.
- Continued to make student and staff safety our number one priority by growing the District School Safety Task Force and the Raven Team.
- Continued to train staff and collect resources to support anti-bullying and tolerance efforts.
- Continued to enhance and expand work toward a seamless and paperless environment through increased use of the staff portal system and email.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2010-2011 year, the Governing Board and management used the following criteria:

The key assumptions in our revenue forecast are:

- 1) Revenue limits income.
- 2) Developer mitigation fees (collected in accordance with State guidelines) are based on the approximate number of new housing units to be constructed.
- 3) Federal income will decrease due to the increased population of qualified students.
- 4) State income will decrease due to the population of qualified students.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	21.1:1	4319
Grades four through eight	24.2:1	5334
Grades nine through twelve	24.5:1	6598

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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 questions about this report or need any additional financial information, contact the Associate Superintendent, Business Services, at Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California, 95376, or e-mail at cgoodall@tUSD.net

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
ASSETS	
Deposits and investments	\$ 65,365,678
Receivables	22,317,426
Prepaid expenses	12,827
Stores inventories	291,714
Capital assets not depreciated	120,593,473
Capital assets, net of accumulated depreciation	171,730,443
Total Assets	380,311,561
LIABILITIES	
Accounts payable	4,043,526
Interest payable	1,222,913
Deferred revenue	776,011
Current loans	9,223,943
Current portion of long-term obligations	1,035,000
Noncurrent portion of long-term obligations	62,665,840
Total Liabilities	78,967,233
NET ASSETS	
Invested in capital assets, net of related debt	250,998,331
Restricted for:	
Debt service	2,278,095
Capital projects	16,092,151
Educational programs	5,309,120
Other activities	11,730,049
Unrestricted	14,936,582
Total Net Assets	\$ 301,344,328

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

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 84,022,291	\$ 139,428	\$ 12,050,283	\$ 2,526,752	\$ (69,305,828)
Instruction-related activities:					
Supervision of instruction	2,808,076	12,478	1,007,859	-	(1,787,739)
Instructional library, media, and technology	3,137,479	8,652	441,627	-	(2,687,200)
School site administration	9,198,057	19,628	544,687	-	(8,633,742)
Pupil services:					
Home-to-school transportation	3,305,173	191,989	1,186,240	-	(1,926,944)
Food services	4,176,898	1,300,795	3,063,899	-	187,796
All other pupil services	4,709,272	195	729,521	-	(3,979,556)
General administration:					
All other general administration	4,974,302	67,191	841,338	-	(4,065,773)
Plant services	12,622,609	57,941	150,108	-	(12,414,560)
Ancillary services	1,079,804	-	25,027	-	(1,054,777)
Community services	122,710	-	-	-	(122,710)
Interest on long-term debt	3,089,703	-	-	-	(3,089,703)
Other outgo	4,013,429	1,738,554	2,063,928	-	(210,947)
Total Governmental-Type Activities	\$ 137,259,803	\$ 3,536,851	\$ 22,104,517	\$ 2,526,752	(109,091,683)
General revenues and subventions:					
Property taxes, levied for general purposes					25,434,990
Property taxes, levied for debt service					4,037,365
Taxes levied for other specific purposes					557,051
Federal and State aid not restricted to specific purposes					68,725,300
Interest and investment earnings					219,157
Interagency revenues					60,151
Miscellaneous					5,330,778
Subtotal, General Revenues					104,364,792
Change in Net Assets					(4,726,891)
Net Assets - Beginning					306,071,219
Net Assets - Ending					\$ 301,344,328

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

TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2010

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 13,478,982	\$ 27,351,756	\$ 1,808,428
Receivables	21,309,758	41,223	7,164
Due from other funds	703,534	-	7,175,000
Prepaid expenses	313	-	-
Stores inventories	194,040	-	-
Total Assets	\$ 35,686,627	\$ 27,392,979	\$ 8,990,592
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,180,735	\$ 27,378	\$ 1,691,829
Due to other funds	850,553	7,199,779	-
Other current liabilities	9,223,943	-	-
Deferred revenue	771,332	-	-
Total Liabilities	13,026,563	7,227,157	1,691,829
Fund Balances:			
Reserved for:			
Legally restricted balances	5,309,120	-	-
Other reservations	209,352	-	-
Unreserved:			
Designated	5,564,450	-	-
Undesignated, reported in:			
General fund	11,577,142	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	20,165,822	7,298,763
Total Fund Balance	22,660,064	20,165,822	7,298,763
Total Liabilities and Fund Balances	\$ 35,686,627	\$ 27,392,979	\$ 8,990,592

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

Non Major Governmental Funds	Total Governmental Funds
\$ 22,726,512	\$ 65,365,678
927,235	22,285,380
850,553	8,729,087
12,514	12,827
97,674	291,714
<u>\$ 24,614,488</u>	<u>\$ 96,684,686</u>
\$ 143,584	\$ 4,043,526
678,755	8,729,087
-	9,223,943
4,679	776,011
<u>827,018</u>	<u>22,772,567</u>
30,224	5,339,344
110,187	319,539
6,439,772	12,004,222
-	11,577,142
5,149,866	5,149,866
3,263,268	3,263,268
8,794,153	36,258,738
<u>23,787,470</u>	<u>73,912,119</u>
<u>\$ 24,614,488</u>	<u>\$ 96,684,686</u>

TRACY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

Total Fund Balance - Governmental Funds		\$ 73,912,119
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 367,210,143	
Accumulated depreciation is	<u>(74,886,227)</u>	
Net Capital Assets		292,323,916
In the governmental funds, the receipt of special education mandated settlement and redevelopment funds are reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.		32,046
Interest on long-term obligations is only recognized at the time it is due, however, the unmatured interest is recorded as a liability on the statement of net assets.		(1,222,913)
Long-term liabilities at year end consist of:		
Bonds payable	60,330,000	
Capital leases payable	99,894	
Compensated absences (vacations)	125,745	
Net OPEB obligation	2,082,983	
Supplementary early retirement plan	<u>1,062,218</u>	
Total Long-Term Liabilities		(63,700,840)
Total Net Assets - Governmental Activities		<u>\$ 301,344,328</u>

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

TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Building Fund	County School Facilities Fund
REVENUES			
Revenue limit sources	\$ 81,549,698	\$ -	\$ -
Federal sources	9,397,454	-	-
Other state sources	18,621,973	-	2,441,203
Other local sources	8,283,757	758,113	130,650
Total Revenues	117,852,882	758,113	2,571,853
EXPENDITURES			
Current			
Instruction	78,578,030	-	-
Instruction-related activities:			
Supervision of instruction	2,802,403	-	-
Instructional library, media and technology	3,026,071	-	-
School site administration	8,609,439	-	-
Pupil services:			
Home-to-school transportation	3,299,879	-	-
Food services	5,150	-	-
All other pupil services	4,658,797	-	-
General administration:			
All other general administration	4,771,687	-	-
Plant services	10,748,571	1,092,665	242,919
Facility acquisition and construction	527,293	223,189	29,491,000
Ancillary services	1,077,623	-	-
Community services	122,462	-	-
Other outgo	1,013,429	-	-
Debt service			
Principal	143,308	-	-
Interest and other	5,421	-	-
Total Expenditures	119,389,563	1,315,854	29,733,919
Excess (Deficiency) of			
Revenues Over Expenditures	(1,536,681)	(557,741)	(27,162,066)
Other Financing Sources (Uses):			
Transfers in	5,309,553	215,560	13,554,393
Other sources	27,219	-	-
Transfers out	(849,851)	(10,534,678)	(215,560)
Net Financing Sources (Uses)	4,486,921	(10,319,118)	13,338,833
NET CHANGE IN FUND BALANCES	2,950,240	(10,876,859)	(13,823,233)
Fund Balance - Beginning	19,709,824	31,042,681	21,121,996
Fund Balance - Ending	\$ 22,660,064	\$ 20,165,822	\$ 7,298,763

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

Non Major Governmental Funds	Total Governmental Funds
\$ -	\$ 81,549,698
3,132,452	12,529,906
2,210,557	23,273,733
6,608,213	15,780,733
<u>11,951,222</u>	<u>133,134,070</u>
514,180	79,092,210
-	2,802,403
-	3,026,071
558,091	9,167,530
-	3,299,879
4,393,997	4,399,147
41,045	4,699,842
222,474	4,994,161
413,277	12,497,432
82,206	30,323,688
-	1,077,623
-	122,462
3,000,000	4,013,429
460,000	603,308
2,795,239	2,800,660
<u>12,480,509</u>	<u>162,919,845</u>
<u>(529,287)</u>	<u>(29,785,775)</u>
669,774	19,749,280
10,186	37,405
<u>(8,149,191)</u>	<u>(19,749,280)</u>
<u>(7,469,231)</u>	<u>37,405</u>
<u>(7,998,518)</u>	<u>(29,748,370)</u>
31,785,988	103,660,489
<u>\$ 23,787,470</u>	<u>\$ 73,912,119</u>

TRACY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balance - Governmental Funds \$ (29,748,370)
Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which capital outlays exceeds depreciation in the period.

Depreciation expense	\$ (5,828,406)	
Capital outlays	<u>31,107,112</u>	
Net Expense Adjustment		25,278,706

Revenue related to the Special Education settlement is reported in the governmental funds, but is a reduction in receivable on the statement of net assets.

(55,362)

Revenue received from the redevelopment agency is recorded in the year received in the governmental funds because it is not available in the year earned. However, this amount is recorded as revenue in the year earned in the statement of activities.

(557,051)

Some of the capital assets acquired this year were financed with capital leases.

The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.

(26,150)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Vacation earned was more than the amounts used.

39,761

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

552,005

In the statement of activities, unfunded Annual Required Contribution (ARC) is recognized as an expense, but is not recognized in the governmental funds.

(238,245)

In the statement of activities, the supplementary early retirement plan is recognized as a liability, but is not recognized in the governmental funds until payment is due.

265,555

Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(237,740)

Change in Net Assets of Governmental Activities

\$ (4,726,891)

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

TRACY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

	<u>Agency Fund</u>
ASSETS	
Deposits and investments	\$ 1,020,726
Total Assets	<u><u>\$ 1,020,726</u></u>
LIABILITIES	
Due to student groups	\$ 1,020,726
Total Liabilities	<u><u>\$ 1,020,726</u></u>

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

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Tracy Unified School District was unified on July 1, 1997 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates eight K-5 schools, four K-8 schools, two high schools, two continuation high schools, a community day school, and adult educational classes.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Tracy Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. The District has no component units.

Charter School The District has approved Charters for three Charter Schools pursuant to Education Code Section 47605, Discovery Charter, Primary Charter, and Millennium Charter. The Charter Schools are operated by Tracy Learning Center which is not considered a component unit of the District. The District receives revenue on behalf of the Charter Schools which it passes on to the Charters. This activity is not accounted for in District funds.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

County Schools Facilities Fund The County Schools Facilities Fund is used primarily to account separately for State apportionments provided (Education Code Sections 17010.10-17076.10).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (Education Code Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (Education Code Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (Education Code Section 42840).

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (Education Code Section 42840).

Community Facilities District Fund (Building CFD) The Community Facilities District Fund is used to account for the activity related to funds received from the Tracy Area Public Facilities Financing Agency.

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (Education Code Sections 15125-15262).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category includes agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Investments

Investments held at June 30, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Debt Service Fund represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures over the benefiting period.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets, except for the net residual amounts due between governmental activities, which are presented as internal balances.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certified employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the statement of activities, except for the net residual amounts transferred between governmental activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Joaquin bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 65,365,678
Fiduciary funds	<u>1,020,726</u>
Total Deposits and Investments	<u>\$ 66,386,404</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 1,024,341
Cash in revolving	15,000
Investments	<u>65,347,063</u>
Total Deposits and Investments	<u>\$ 66,386,404</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk depositing substantially all of its funds in the County Treasury pool. The fair value of the deposits with the County Treasurer at June 30, 2010, was \$65,347,063 and the weighted average maturity of the pool was less than one year.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, approximately \$875,000 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institute's trust department or agent but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's custodial credit risk is limited as all funds were invested in the county investment pool.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 3,217,584	\$ -	\$ -	\$ 475,176	\$ 3,692,760
State Government					
Apportionment	14,067,068	-	-	-	14,067,068
Categorical aid	1,610,411	-	-	353,404	1,963,815
Lottery	499,724	-	-	-	499,724
Other State	72,772	-	-	-	72,772
Local Government					
Interest	29,818	41,223	7,164	31,896	110,101
Other Local Sources	1,812,381	-	-	66,759	1,879,140
Total	<u>\$ 21,309,758</u>	<u>\$ 41,223</u>	<u>\$ 7,164</u>	<u>\$ 927,235</u>	<u>\$22,285,380</u>

Long-term receivables consist of the Special Education mandated settlement, in the amount of \$55,362, which will be received next year.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 27,381,639	\$ -	\$ -	\$ 27,381,639
Construction in Progress	105,919,809	26,850,132	(39,558,107)	93,211,834
Total Capital Assets Not Being Depreciated	133,301,448	26,850,132	(39,558,107)	120,593,473
Capital Assets Being Depreciated:				
Land Improvements	15,315,365	853,808	-	16,169,173
Buildings and Improvements	178,773,696	42,003,639	-	220,777,335
Furniture and Equipment	2,446,730	520,949	-	2,967,679
Vehicles	6,265,792	436,691	-	6,702,483
Total Capital Assets Being Depreciated	202,801,583	43,815,087	-	246,616,670
Total Capital Assets	336,103,031	70,665,219	(39,558,107)	367,210,143
Less Accumulated Depreciation:				
Land Improvements	6,353,825	619,739	-	6,973,564
Buildings and Improvements	57,703,165	4,489,380	-	62,192,545
Furniture and Equipment	1,131,161	280,103	-	1,411,264
Vehicles	3,869,670	439,184	-	4,308,854
Total Accumulated Depreciation	69,057,821	5,828,406	-	74,886,227
Governmental Activities Capital Assets, Net	\$ 267,045,210	\$ 64,836,813	\$ (39,558,107)	\$ 292,323,916

Depreciation expense was charged as a direct expense to governmental function as follows:

Governmental Activities	
Instruction	\$ 4,771,026
Instructional library, media, and technology	192,878
School site administration	13,100
Home-to-school transportation	466,296
Food services	36,183
All other general administration	275,798
Plant services	73,125
Total Depreciation Expenses Governmental Activities	<u>\$ 5,828,406</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds are as follows:

Due From	Due To			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 24,779	\$ 678,755	\$ 703,534
County School Facilities Fund	-	7,175,000	-	7,175,000
Non-Major Governmental funds	850,553	-	-	850,553
Total	<u>\$ 850,553</u>	<u>\$ 7,199,779</u>	<u>\$ 678,755</u>	<u>\$ 8,729,087</u>

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Building Fund	County Schools Facilities	Non-Major Governmental Funds	
General Fund	\$ -	\$ 24,780	\$ -	\$ 5,284,773	\$ 5,309,553
Building	-	-	215,560	-	215,560
County Schools Facilities	-	9,684,898	-	2,864,418	12,549,316
Non-Major Governmental funds	849,851	825,000	-	-	1,674,851
Total	<u>\$ 849,851</u>	<u>\$10,534,678</u>	<u>\$ 215,560</u>	<u>\$ 8,149,191</u>	<u>\$ 19,749,280</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The General Fund transferred to the Adult Education Fund for lottery.	\$ 59,774
The General Fund transferred to the Deferred Maintenance Fund for discretionary transfer for future expenditures	500,000
The General Fund transferred to the Deferred Maintenance Fund to move funds from restricted to unrestricted.	180,076
The General Fund transferred to the Special Reserve Fund for West High School Pool-City Partnership Agreement.	110,000
The Building Fund transferred to the County Schools Facility Fund for construction expenditure reimbursement.	9,625,000
The Building Fund transferred to the General Fund for administrative reimbursement.	12,390
The Cafeteria Fund transferred to the County Schools Facilities Fund for construction expenditure reimbursement.	44,494
The School Facilities Improvement Fund transferred to the General Fund for reimbursement for Measure E administrative expenditure reimbursement.	12,390
The School Facilities Improvement Fund transferred to the Capital Facilities Fund for construction expenditure reimbursement.	825,000
The Capital Facilities Fund transferred to the General Fund for reimbursement of administrative expenditures.	8,279
The Capital Facilities Fund transferred to the County School Facilities Fund for reimbursement of Mountain House Unification expenditures.	3,000,000
The County School Facilities Fund transferred to the Building Fund for construction expenditure reimbursement.	215,560
The Adult Education Fund repaid temporary loan from General Fund to cover costs.	71,668
The Redevelopment Fund transferred to the County Schools Facilities Fund for construction expenditure reimbursement.	59,899
The Special Reserve Fund transferred to the General Fund to alleviate cash deficiencies in the General Fund.	5,000,000
The Community Facilities Mello Roos Fund transferred to the General Fund for salary and miscellaneous expenditure reimbursement.	24,750
	<u>\$ 19,749,280</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,453,863	\$ 27,378	\$ 1,691,829	\$ 101,108	\$ 3,274,178
Salaries and benefits	726,872	-	-	42,476	769,348
Total	<u>\$ 2,180,735</u>	<u>\$ 27,378</u>	<u>\$ 1,691,829</u>	<u>\$ 143,584</u>	<u>\$ 4,043,526</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 485,806	\$ 2,008	\$ 487,814
State categorical aid	201,774	2,671	204,445
Other local	83,752	-	83,752
Total	<u>\$ 771,332</u>	<u>\$ 4,679</u>	<u>\$ 776,011</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On April 27, 2010, the District issued \$9,165,000 Tax and Revenue Anticipation Notes bearing interest at 2.5 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on December 30, 2030. The District placed percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes in July 2010 through September 2010. The District has recorded the cash available to make the principal and interest payments as Cash with Fiscal Agency and with the corresponding liability and associated interest as a current loan.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2009	Additions	Interest	Outstanding June 30, 2010
April 27, 2010	3%	December 30, 2010	\$ -	\$ 9,165,000	\$ 58,943	\$ 9,223,943

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$60,790,000	\$ -	\$ 460,000	\$ 60,330,000	\$ 720,000
Compensated absences	165,506	-	39,761	125,745	-
Capital leases	165,749	26,150	92,005	99,894	49,445
Other postemployment benefits	1,844,738	2,246,394	2,008,149	2,082,983	-
Supplementary early retirement plan	1,327,773	-	265,555	1,062,218	265,555
	<u>\$64,293,766</u>	<u>\$ 2,272,544</u>	<u>\$ 2,865,470</u>	<u>\$ 63,700,840</u>	<u>\$1,035,000</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

The general obligation bonds will be paid from property tax assessments through the bond interest and redemption fund. The capital lease payments are generally paid through the general fund. The accrued vacation, supplementary early retirement plan and other postemployment benefits will be paid by the fund for which the employee worked.

General Obligation Bonds

The District has issued the following general obligation bonds:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Redeemed	Bonds Outstanding June 30, 2010
July 2006	8/1/2031	4.00% - 8.00%	\$14,000,000	\$ 11,835,000	\$ 290,000	\$ 11,545,000
July 2007	8/1/2032	4.00% - 8.00%	\$20,000,000	19,955,000	170,000	19,785,000
July 2008	8/1/2033	2.75% - 10.00%	\$17,000,000	17,000,000	-	17,000,000
April 2009	8/1/2033	3.00% - 6.00%	\$12,000,000	12,000,000	-	12,000,000
				<u>\$ 60,790,000</u>	<u>\$ 460,000</u>	<u>\$ 60,330,000</u>

Debt Service Requirements to Maturity

The general obligation bonds have debt service requirements as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	\$ 720,000	\$ 2,910,840	\$ 3,630,840
2012	990,000	2,859,289	3,849,289
2013	755,000	2,807,363	3,562,363
2014	885,000	2,753,788	3,638,788
2015	1,045,000	2,693,915	3,738,915
2016-2020	7,910,000	12,491,678	20,401,678
2021-2025	13,425,000	10,137,351	23,562,351
2026-2030	20,605,000	5,702,618	26,307,618
2031-2035	13,995,000	634,430	14,629,430
Total	<u>\$ 60,330,000</u>	<u>\$ 42,991,272</u>	<u>\$ 103,321,272</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$125,745.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 50,513
2012	44,667
2013	10,421
2014	7,261
Total	112,862
Less: Amount Representing Interest	(12,968)
Present Value of Minimum Lease Payments	<u>\$ 99,894</u>

Lease land, buildings, and equipment under capital leases in capital assets at June 30, 2010, include the following:

Equipment	\$ 530,067
Less Accumulated Depreciation	143,461
Total	<u>\$ 673,528</u>

Supplementary Early Retirement Plan

The District implemented a supplementary early retirement plan (the Plan) during the year ended June 30, 2009. Eligible employees must have five or more years of service with the District, be eligible to retire under the State Teachers Retirement System (CalSTRS), retire effective on or before July 1, 2009 and have applied for benefits under the Plan. The District funds the supplemental benefit for each Plan participant through employer contributions equal to seventy-five percent of a participant's final pay. The benefits provided under the Plan are to be funded in five annual contributions of \$265,555 beginning July 2009.

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The District's annual required contribution (ARC) was \$2,246,394 for the year ended June 30, 2010. The District made a contribution of \$2,008,149, which was less than the actuarial "pay as you go" costs of \$2,157,558. The actual "pay-as-you-go" amount of \$2,008,149 was deducted from the ARC, which resulted in a net increase to the OPEB obligation of \$238,245. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit plan. The OPEB obligation for the District at June 30, 2010, amounted to \$2,082,983.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 10 - FUND BALANCES

Fund balances with reservations and designations are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Stores inventory	194,039	-	-	97,673	291,712
Prepaid expenditures	313	-	-	12,514	12,827
Restricted programs	5,309,120	-	-	30,224	5,339,344
Total Reserved	5,518,472	-	-	140,411	5,658,883
Unreserved					
Designated					
Economic uncertainties	3,531,650	-	-	-	3,531,650
Other designation	2,032,800	-	-	6,439,772	8,472,572
Total Designated	5,564,450	-	-	6,439,772	12,004,222
Undesignated	11,577,142	20,165,822	7,298,763	17,207,287	56,249,014
Total Unreserved	17,141,592	20,165,822	7,298,763	23,647,059	68,253,236
Total	\$ 22,660,064	\$ 20,165,822	\$ 7,298,763	\$ 23,787,470	\$ 73,912,119

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Tracy Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 117 retirees and beneficiaries currently receiving benefits and 1,178 active plan members and 4 trustees. Unfunded portion of annual required contributions (net OPEB obligation) is presented in the statement of net assets as a portion of long-term obligations.

	<u>Certified</u>	<u>Classified</u>	<u>Management</u>
	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Benefit types provided	To age 65	To age 65	To age 65
Duration of Benefits	10 years*	10 years	10 years
Required Service	55	55	55
Minimum Age	Yes	Yes	Yes
Dependent Coverage	100%	100%	100%
District Contribution %	\$8,482 per year**	\$8,482 per year**	\$8,162 per year**
District Cap			

* Equivalent full-time service.

**For those retiring prior to July 1, 2008, District pays full cost.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District's bargaining units and the unrepresented groups. For fiscal year 2009-10, the District contributed \$2,008,149 to the plan, all of which was used for current premiums (approximately 80 percent of current year's annual required contributions). However, this cost would increase over the next ten years at an annual rate of 7.3%.

Annual OPEB Cost and Net OPEB Obligation

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 No. 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 accrued liabilities (UAAL) (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 to the Plan:

Annual required contribution	\$ 2,246,394
Contributions made	<u>(2,008,149)</u>
Increase in net OPEB obligation	238,245
Net OPEB obligation, beginning of year	<u>1,844,738</u>
Net OPEB obligation, end of year	<u>\$ 2,082,983</u>

The trend information for actual contributions, annual OPEB cost, the percentage contributed and the net OPEB obligation was as follows:

Year Ended June 30	Actual Contribution	Annual OPEB cost	Percentage Contributed	Net OPEB Obligation
2009	\$ 2,175,979	\$ 2,726,971	80%	\$ 1,844,738
2010	2,008,149	2,246,394	89%	2,082,983

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Funded Status and Funding Progress

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 investment returns, 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. Although this is the second year of implementation, there is no multiyear trend information reported because the information for 2009 and 2010 is based upon the same actuarial valuation date of July 12, 2007.

Actuarial Methods and Assumptions

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 July 12, 2007 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses). The healthcare cost trend rate was 4 percent until reaching the ultimate trend. The UAAL is being amortized at a level percentage with payroll assuming a 3 percent annual increase in payroll. The remaining amortization period at July 12, 2007, was 29 years. The actuarial value of assets was not determined in this actuarial valuation. Currently, the District is considered to be an unfunded plan since there are no assets and retiree benefits are paid annually on a cash basis.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District contracted with Northern California Regional Liability Excess Fund (NorCal ReLiEF) for building and personal property and SAFER for excess property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Workers' Compensation

The District participates in the San Joaquin County Schools Workers' Compensation (SJCSWC), an insurance purchasing pool. The intent of the SJCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SJCSWC. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SJCSWC. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of each participated school districts. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SJCSWC.

Coverage provided by SJCSWC, SAFER, and NorCal Relief for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
San Joaquin County Schools Workers' Compensation	Workers' Compensation	State Statutory Limit
NorCal ReLiEF	Liability	\$ 25,000,000
	Property	250,000,000
	Crime	5,000,000
SAFER	Excess Liability	4,000,000

Employee Medical Benefits

The District has contracted with the Central Valley Schools Health and Welfare Trusts to provide employee medical and surgical benefits. The Trust was established as a combined effort of District Superintendents and labor representatives of both the California Teachers Association (CTA) and the California School Employees Association (CSEA). The purpose of the trust is to pool the resources of smaller school districts to achieve health care benefits similar to those available to larger districts. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$4,901,566, \$5,077,659, and \$5,193,213, respectively, and equal 100 percent of the required contributions for each year.

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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent 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 2009-2010 was 9.709 percent of covered 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, 2010, 2009, and 2008, were \$1,714,287, \$1,674,045 and \$1,650,071, respectively, and equal 100 percent of the required contributions for each year.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Tax Deferred Annuity/Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use the TDA as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 3.3 percent of an employee's gross earnings. There are no employee required contributions.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,518,369 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2010.

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Tracy High School Modernization		
Cafeteria and Classroom Buildings	\$ 4,362,967	03/31/11
Library and Classroom Buildings	5,198,971	03/31/11
Construction at various sites		
Kimball High School	896,775	10/15/10
	<u>\$ 10,458,713</u>	

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Joaquin County Schools Workers' Compensation public entity risk pool and San Joaquin County Schools Data Processing joint powers authority. The District pays an annual premium to the applicable entity for its workers' compensation coverage and information technology support. The relationships between the District, the pool, and the JPA are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2010, the District made payment of \$1,325,652 to San Joaquin County Schools Workers' Compensation and \$454,941 to San Joaquin County Schools Data Processing joint powers authority.

NOTE 16 – COMMUNITY FACILITIES DISTRICT (JPA)

The Tracy Area Public Facilities Financing Agency (Agency) was created pursuant to a Joint Powers Agreement between the City of Tracy, Tracy School District, Tracy Joint Union High School District, (Tracy School District and Tracy Joint Union High School District became the Tracy Unified School District effective July 1, 1997) and Jefferson School District for the purpose of forming a community facilities district under the provisions of the Mello-Roos Community Facility Act of 1982. The Agency has established Community Facilities District Number 1987-1 for the purpose of financing, constructing, and acquiring school facilities for each of the school districts and public facilities for the City. The Agency currently has no employees or property and equipment, and its powers are limited to implementation of the Mello-Roos financing plans contemplated in the Joint Powers Agreement. The Agency and its Community Facilities District are controlled by a governing board consisting of seven members; two members of the Tracy City Council, three members of the School Board of the Tracy Unified School District, and two members of the School Board of the Jefferson School District. All such members of the Agency's governing board are independently elected to their respective member entities. Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budget, sign contracts, levy taxes, and otherwise influence operations and account for fiscal matters, is exercised by the Agency's governing Board. Accordingly, the Agency is considered to be a separate reporting entity for financial reporting purposes and the June 30, 2009, audited accompanying financial information reflects only the assets, liabilities, fund balances, revenues and expenditures of the Agency.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Audited financial information for the Agency is summarized below:

	June 30, 2009*
	(Audited)
Total Assets	\$ 29,018,153
Total Liabilities	40,613,709
Net Assets	<u>\$ (11,595,556)</u>
 Total Revenues and Other Sources	 \$ 2,223,834
Total Expenditures	2,486,994
Net Increase in Net Assets	<u>\$ (263,160)</u>

* Most recent information available.

At June 30, 2009, the Agency had outstanding special tax bonds payable of \$ 40,015,000 with maturities through 2021.

NOTE 17 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-10 Fourth Extraordinary Session (SBX4 416) (Chapter 23, Statutes of 2009), 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts (GAAP Basis)		Actual	Variances - Positive (Negative) Final to Actual
	Original	Final	(GAAP Basis)	
REVENUES				
Revenue limit sources	\$ 87,970,483	\$ 81,636,496	\$ 81,549,698	\$ (86,798)
Federal sources	5,402,084	11,204,119	9,397,454	(1,806,665)
Other state sources	15,005,771	16,149,741	18,621,973	2,472,232
Other local sources	6,826,119	7,762,707	8,283,757	521,050
Total Revenues¹	115,204,457	116,753,063	117,852,882	1,099,819
EXPENDITURES				
Current				
Certificated salaries	61,745,152	61,579,424	60,510,765	1,068,659
Classified salaries	17,937,676	17,317,694	17,101,299	216,395
Employee benefits	23,097,129	25,403,444	25,003,815	399,629
Books and supplies	9,714,783	10,436,017	4,727,380	5,708,637
Services and operating expenditures	9,946,409	12,604,701	9,985,308	2,619,393
Capital outlay	633,051	1,527,559	1,121,312	406,247
Other outgo	644,764	1,014,834	790,955	223,879
Debt service				
Debt service - principal	148,697	149,202	143,308	5,894
Debt service - interest	6,978	6,978	5,421	1,557
Total Expenditures¹	123,874,639	130,039,853	119,389,563	10,650,290
Excess (Deficiency) of Revenues Over Expenditures	(8,670,182)	(13,286,790)	(1,536,681)	11,750,109
Other Financing Sources (Uses):				
Transfers in	5,066,800	5,128,708	5,309,553	180,845
Other sources	-	27,219	27,219	-
Transfers out	(559,774)	(669,774)	(849,851)	(180,077)
Net Financing Sources (Uses)	4,507,026	4,486,153	4,486,921	768
NET CHANGE IN FUND BALANCES	(4,163,156)	(8,800,637)	2,950,240	11,750,877
Fund Balance - Beginning	19,709,824	19,709,824	19,709,824	-
Fund Balance - Ending	\$ 15,546,668	\$ 10,909,187	\$ 22,660,064	\$ 11,750,877

¹ On behalf payments of \$2,518,369 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

TRACY UNIFIED SCHOOL DISTRICT**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2010**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 12, 2007	\$ -	\$ 25,140,909	\$ 25,140,909	\$ -	\$ 82,332,983	31%
April 1, 2009	\$ -	\$ 21,610,970	\$ 21,610,970	\$ -	\$ 82,332,983	26%

SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through the California Department of Education:			
Adult Education: Adult Basic Ed & ESL	84.002A	14508	\$ 84,093
Adult Education: English Literacy & Civics Education	84.002A	14109	22,399
Adult Education: Adult Secondary Education	84.002	13978	32,439
English Language Initiative	84.215K	[2]	12,444
NCLB: Title N, Part A, Safe and Drug Free Schools and Communities, Formula Grants	84.186	14347	16,745
Elementary and Secondary Education Act			
State Fiscal Stabilization Fund - ARRA	84.394	25008	1,119,431
Title I - Part A, Basic Grants Low-Income and Neglected	84.010	14981	1,277,022
Title I - Part A, Basic Grants Low-Income and Neglected - ARRA	84.389	15005	867,024
Title I - Part A, Program Improvement District Intervention	84.010	14955	91,108
Migrant Education - Regular School	84.011	14326	57,941
Special Education			
Local Assistance	84.027	13379	2,213,994
Local Assistance	84.027	13430	50,134
Preschool Local Entitlement	84.027A	13682	139,395
Part B, Sec 611 Basic Local Assistance	84.391	15003	2,029,779
Part B, Sec 611 Basic Local Assistance - ARRA	84.391	15003	155,774
Preschool Grant - ARRA	84.392	15000	70,590
CPIN Special Education Leads	84.173	14530	641
Vocational Educational Grants			
Vocational Programs, Secondary LC	84.048	13924	56,959
Title II - Part A, Teacher Quality	84.367	14341	264,366
Title II - Part A, Administrator Training	84.367	14344	1,563
Title II - Enhancing Education Through Technology	84.318	14334	8,089
Title III - Immigrant Education Program	84.365	14346	1,574
Title III - Limited English Proficiency	84.365	10084	431,474
Title IV - Drug Free Schools	84.186	14347	84,481
Title V - Innovative Education Strategies	84.298A	14354	16,787
Subtotal			<u>9,132,643</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the California Department of Education:			
National School Lunch Program	10.553	13390	2,992,879
Commodities ¹	10.55	13755	211,391
Subtotal			<u>3,204,270</u>

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medi-Cal Administrative Activities (MAA)	93.778	10060	260,104
Medi-Cal Billing Option	93.778	10013	106,449
Subtotal			<u>366,553</u>
 CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			
Calserve: Learn & Serve America	94.004	13161	<u>37,829</u>
Total expenditures of federal awards			<u>\$ 12,741,295</u>

¹ Not included in the financial statements.

² Pass-through number not available.

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

ORGANIZATION

The Tracy Unified School District was established July 1, 1997 and consists of an area comprising approximately 425 square miles. The District operates eight K-5 schools, four K-8 schools, two middle, two high schools, two continuation high schools, a community day school, and adult educational classes.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ted Guzman	President	2010
Bill Swenson	Vice President	2010
Kelly Lewis	Clerk	2010
James Vaughn	Member	2012
Tom Hawkins	Member	2012
Gregory Crandall	Member	2010
Walter Gouveia	Member	2012

ADMINISTRATION

Dr. James C. Franco	Superintendent
Dr. Ryan Davis	Assistant Superintendent, Human Resources
Dr. Sheila Harrison	Assistant Superintendent, Educational Services
Dr. Casey Goodall	Associate Superintendent, Business Services
Reed Call	Director of Financial Services

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2010

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	933	937
First through third	3,109	3,115
Fourth through sixth	3,159	3,161
Seventh and eighth	2,053	2,048
Home and hospital	4	4
Special education	285	289
Community Day School	8	9
Total Elementary	9,551	9,563
SECONDARY		
Regular classes	5,542	5,507
Continuation education	199	200
Home and hospital	18	20
Special education	162	162
Community Day School	22	22
Total Secondary	5,943	5,911
Total K-12	15,494	15,474

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-83	Reduced	1986-87	Reduced	2009-2010	Number of Days		Status
	Actual Minutes	1982-83 Actual Mintues	Minutes Requirement	1986-87 Mintues Req.	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	32,208	31,313	36,000	35,000	36,496	180	174	In compliance
Grade 1	44,528	43,291	50,400	49,000	52,207	180	174	In compliance
Grade 2	44,528	43,291	50,400	49,000	52,207	180	174	In compliance
Grade 3	44,528	43,291	50,400	49,000	52,302	180	174	In compliance
Grade 4	54,560	53,044	54,000	52,500	56,430	180	174	In compliance
Grade 5	54,560	53,044	54,000	52,500	56,430	180	174	In compliance
Grade 6	54,560	53,044	54,000	52,500	58,435	180	174	In compliance
Grade 7	54,560	53,044	54,000	52,500	58,365	180	174	In compliance
Grade 8	54,560	53,044	54,000	52,500	58,365	180	174	In compliance
Grade 9	58,000	56,389	64,800	63,000	65,199	180	NA	In compliance
Grade 10	58,000	56,389	64,800	63,000	65,410	180	NA	In compliance
Grade 11	58,000	56,389	64,800	63,000	65,410	180	NA	In compliance
Grade 12	58,000	56,389	64,800	63,000	64,989	180	NA	In compliance

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Summarized below are the Form Debt and Form Asset reconciliations between the Unaudited Actual Financial Report, and the audited financial statements.

FORM DEBT

	Form Debt
Total Liabilities, June 30, 2010, Unaudited Actuals	\$ 60,500,509
Increase in:	
OPEB obligations	2,082,983
Supplementary Early Retirement Plan	1,062,218
Compensated Absences	55,130
Total Liabilities, June 30, 2010, Audited Financial Statement	<u>\$ 63,700,840</u>

FORM ASSET

	Form Asset
Total Capital Assets, June 30, 2010, Unaudited Actuals	\$ -
Increase in:	
Land	27,381,639
Land Improvements	16,169,173
Buildings and Improvements	220,777,335
Furniture and Equipment	2,967,679
Vehicles	6,702,483
Construction in Progress	93,211,834
Accumulated Depreciation - Land Improvements	(6,973,564)
Accumulated Depreciation - Buildings and Improvements	(62,192,545)
Accumulated Depreciation - Furniture and Equipment	(1,411,264)
Accumulated Depreciation - Vehicles	(4,308,854)
Total Capital Assets, June 30, 2010, Audited Financial Statement	<u>\$ 292,323,916</u>

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) 2011 ¹	2010	2009	2008
GENERAL FUND				
Revenues	\$ 104,783,954	\$ 117,852,882	\$ 130,138,456	\$ 129,522,539
Other sources and transfers in	550,800	5,336,772	3,215,595	1,404,782
Total Revenues and Other Sources	105,334,754	123,189,654	133,354,051	130,927,321
Expenditures	110,234,151	119,389,563	125,781,841	126,521,855
Other uses and transfers out	-	849,851	1,252,219	6,461,201
Total Expenditures and Other Uses	110,234,151	120,239,414	127,034,060	132,983,056
INCREASE (DECREASE) IN FUND BALANCE	\$ (4,899,397)	\$ 2,950,240	\$ 6,319,991	\$ (2,055,735)
ENDING FUND BALANCE	\$ 17,760,667	\$ 22,660,064	\$ 19,709,824	\$ 13,389,833
AVAILABLE RESERVES²	\$ 11,944,758	\$ 15,108,792	\$ 9,175,871	\$ 6,920,856
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	10.84%	12.83%	7.38%	5.32%
LONG-TERM DEBT	\$ 62,665,840	\$ 63,700,840	\$ 64,293,766	\$ 34,750,916
K-12 AVERAGE DAILY ATTENDANCE AT P-2	15,470	15,494	15,517	15,625

The General Fund balance has increased by \$9,270,231 over the past two years. The fiscal year 2010-11 budget projects a decrease of \$4,899,397 (22 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

Total long-term obligations have increased by \$28,949,924 over the past two years, primarily due to the issuance of government obligation bonds of \$17 million in 2007-08 and \$12 million in 2008-09.

Average daily attendance has decreased by 131 over the past two years. An decrease of 24 ADA is anticipated during fiscal year 2010-11.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and the Special Reserve Fund (other than capital outlays) as well as the ABX43 adjustment amount.

³ On-behalf payments of \$2,518,369 \$2,773,030, and \$2,832,517, respectively, have been excluded from the calculation of available reserves for fiscal years ending June 30, 2010, 2009, and 2008, respectively.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2010

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Discovery Charter	No
Primary Charter	No
Millennium Charter	No

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 54,937	\$ 30,673	\$ 2,239,512	\$ 2,063,508
Receivables	448,860	16,040	367,529	3,026
Due from other funds	59,791	-	685	680,077
Prepaid expenses	-	-	12,514	-
Stores inventories	-	-	97,674	-
Total Assets	\$ 563,588	\$ 46,713	\$ 2,717,914	\$ 2,746,611
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 60,956	\$ 7,585	\$ 41,103	\$ -
Due to other funds	195,821	9,256	285,072	180,077
Deferred revenue	-	4,679	-	-
Total Liabilities	256,777	21,520	326,175	180,077
Fund Balances:				
Reserved for:				
Legally restricted balances	5,031	25,193	-	-
Other reservations	-	-	110,187	-
Unreserved:				
Designated	-	-	-	-
Undesignated, reported in:				
Special revenue funds	301,780	-	2,281,552	2,566,534
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total Fund Balance	306,811	25,193	2,391,739	2,566,534
Total Liabilities and Fund Balances	\$ 563,588	\$ 46,713	\$ 2,717,914	\$ 2,746,611

See accompanying note to supplementary information.

Special Reserve Non-Capital Fund	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Building CFD Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 6,430,405	\$ 8,650,951	\$ 53	\$ 1,003	\$ 3,255,470	\$ 22,726,512
9,367	74,603	-	12	7,798	927,235
-	-	110,000	-	-	850,553
-	-	-	-	-	12,514
-	-	-	-	-	97,674
<u>\$ 6,439,772</u>	<u>\$ 8,725,554</u>	<u>\$ 110,053</u>	<u>\$ 1,015</u>	<u>\$ 3,263,268</u>	<u>\$ 24,614,488</u>
\$ -	\$ 33,940	\$ -	\$ -	\$ -	\$ 143,584
-	8,279	-	250	-	678,755
-	-	-	-	-	4,679
-	42,219	-	250	-	827,018
-	-	-	-	-	30,224
-	-	-	-	-	110,187
6,439,772	-	-	-	-	6,439,772
-	-	-	-	-	5,149,866
-	-	-	-	3,263,268	3,263,268
-	8,683,335	110,053	765	-	8,794,153
<u>6,439,772</u>	<u>8,683,335</u>	<u>110,053</u>	<u>765</u>	<u>3,263,268</u>	<u>23,787,470</u>
<u>\$ 6,439,772</u>	<u>\$ 8,725,554</u>	<u>\$ 110,053</u>	<u>\$ 1,015</u>	<u>\$ 3,263,268</u>	<u>\$ 24,614,488</u>

TRACY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Federal sources	\$ 138,932	\$ 641	\$ 2,992,879	\$ -
Other state sources	1,128,479	193,032	265,417	584,412
Other local sources	41,620	382	1,449,062	10,186
Total Revenues	1,309,031	194,055	4,707,358	594,598
EXPENDITURES				
Current				
Instruction	384,835	129,345	-	-
Instruction-related activities:				
School site administration	501,001	57,090	-	-
Pupil services:				
Food services	-	-	4,393,997	-
All other pupil services	41,045	-	-	-
General administration:				
All other general administration	36,249	7,859	178,366	-
Plant services	32,694	-	108,927	15,456
Facility acquisition and construction	-	-	2,925	11,198
Other outgo	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	995,824	194,294	4,684,215	26,654
Excess (Deficiency) of				
Revenues Over Expenditures	313,207	(239)	23,143	567,944
Other Financing Sources (Uses):				
Transfers in	59,774	-	-	500,000
Other sources	-	-	-	-
Transfers out	(71,668)	-	(44,494)	-
Net Financing Sources (Uses)	(11,894)	-	(44,494)	500,000
NET CHANGE IN FUND BALANCES	301,313	(239)	(21,351)	1,067,944
Fund Balance - Beginning	5,498	25,432	2,413,090	1,498,590
Fund Balance - Ending	\$ 306,811	\$ 25,193	\$ 2,391,739	\$ 2,566,534

See accompanying note to supplementary information.

Special Reserve Non-Capital Fund	Capital Facilities Fund	Special Reserve Capital Fund	Building CFD Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	-	\$ -	\$ -	\$ -	\$ 3,132,452
-	-	-	-	39,217	2,210,557
57,196	1,012,146	-	24,767	4,012,854	6,608,213
57,196	1,012,146	-	24,767	4,052,071	11,951,222
-	-	-	-	-	514,180
-	-	-	-	-	558,091
-	-	-	-	-	4,393,997
-	-	-	-	-	41,045
-	-	-	-	-	222,474
-	256,200	-	-	-	413,277
-	68,083	-	-	-	82,206
-	3,000,000	-	-	-	3,000,000
-	-	-	-	460,000	460,000
-	-	-	-	2,795,239	2,795,239
-	3,324,283	-	-	3,255,239	12,480,509
57,196	(2,312,137)	-	24,767	796,832	(529,287)
-	-	110,000	-	-	669,774
-	-	-	-	10,186	10,186
(5,000,000)	(3,008,279)	-	(24,750)	-	(8,149,191)
(5,000,000)	(3,008,279)	110,000	(24,750)	10,186	(7,469,231)
(4,942,804)	(5,320,416)	110,000	17	807,018	(7,998,518)
11,382,576	14,003,751	53	748	2,456,250	31,785,988
\$ 6,439,772	\$ 8,683,335	\$ 110,053	\$ 765	\$ 3,263,268	\$ 23,787,470

TRACY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

	CFDA Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 12,529,906
Commodities is not included in recorded revenue but is included in expenditures.	N/A	211,389
Total Schedule of Expenditures of Federal Awards		<u>\$ 12,741,295</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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.

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 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. Senate Bill 2 of the 2009-2010 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal years 2009-2010 through 2012-2013.

TRACY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION (CONTINUED) **JUNE 30, 2010**

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the School District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

INDEPENDENT AUDITORS' REPORTS



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

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**INDEPENDENT AUDITORS' 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***

Governing Board
Tracy Unified School District
Tracy, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tracy Unified School District as of and for the year ended June 30, 2010, which collectively comprise Tracy Unified School District's basic financial statements and have issued our report thereon dated December 14, 2010. 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 Tracy Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tracy Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tracy Unified School District's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as 2010-1 to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tracy 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*.

Tracy Unified School District's response to the findings identified in our audit are described in the accompany schedule of findings and responses. We did not audit Tracy Unified School District's responses and, accordingly express no opinion on them.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 14, 2010



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Tracy Unified School District
Tracy, California

Compliance

We have audited the compliance of Tracy 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 could have a direct and material effect on each of Tracy Unified School District major Federal programs for the year ended June 30, 2010. Tracy Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Tracy Unified School District's management. Our responsibility is to express an opinion on Tracy 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 Tracy 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 Tracy Unified School District's compliance with those requirements.

In our opinion, Tracy Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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 and use of the governing board, management, the California Department of Education, the State Controller's Office, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 14, 2010



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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Tracy Unified School District
Tracy, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tracy Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon date December 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Tracy Unified School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Tracy Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes

	Procedures in Audit Guide	Procedures Performed
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Tracy Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Tracy Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Tracy Unified School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, 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.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 14, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses (es) identified?	<u>No</u>
Significant deficiency (ies) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses (es) identified?	<u>No</u>
Significant deficiency (ies) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510 (a) of OMB Circular A-133	
Identification of major programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.391, 84.392 (ARRA), 84.173	<u>Special Education Cluster (including ARRA)</u>
84.010, 84.389 (ARRA)	<u>Title I (including ARRA)</u>
84.394 (ARRA)	<u>State Fiscal Stabilization Fund (ARRA)</u>
84.365	<u>Title III - Limited English Proficiency</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 382,239</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

TRACY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2010-1 30000 – Associated Student Body Funds

Criteria or Specific Requirements

Management is responsible for establishing and maintaining effective internal control a system of internal control to provide it with a reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly.

The District has adopted a set of standardized forms to be used by all sites to ensure that all pertinent information is gathered, provide for consistency of information and ease of review. The standardized forms include some forms that are Required and some that are Recommended.

Condition

The following were noted in site visits:

Tracy High School

- Some activities were preparing an Activity Request and Revenue Potential Recap form, but not preparing a Transaction Request Form. Both of these forms are considered required documentation by the District ASB manual. One significant element on the Transaction Request Form that is not included on the Activity Request and Revenue Potential Recap form, and therefore may not be obtained, is the documentation of preapproval of expenditures.
- Receipting documentation was not always maintained noting that items ordered were received prior to payment being made.
- Student leadership were unable to review summarized activity of the accounts for particular activities.

Questioned costs

There are no questioned costs associated with this condition.

Context

During our visits to the sites to observe the controls over the associated student body accounts we noted the above areas which provide opportunities for the strengthening of internal controls over the funds managed at decentralized locations.

TRACY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Effect

Not using consistent forms and best practices internal controls over the ASB funds results in more difficulty in reviewing documents and increases the opportunity for potential theft or misstatement to occur without being detected.

Cause

Decentralized operations dependent on the actions of many individuals and some individuals may not be aware of or may not follow established procedures. Control and monitoring activities were not effective in addressing the above areas.

Recommendation

The district should continue its efforts to work with site personnel and take actions to correct the above-mentioned issues. The District should consider continuing to provide annual in-house training to site personnel, and periodically review the site progress of improvement regarding these issues. In addition, an annual orientation for student leadership related to not just the forms to use but also the availability of read only access to the activity accounting records may assist students in understanding business purposes for certain types of forms and how finance records are maintained and summarized.

District Response

The District will continue its efforts to correct the above-mentioned issues. District policy directs that the principal is ultimately responsible for student body organization financial activities. The district will continue to work with the principal to ensure that employees are properly trained, require procedures are followed, and required documentation is prepared.

TRACY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None noted.

TRACY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None noted.

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

JUNE 30, 2010

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

2009-1 30000 – Associated Student Body Funds

Criteria or Specific Requirements

Management is responsible for establishing and maintaining effective internal control a system of internal control to provide it with a reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly.

Condition

The following were noted in site visits:

Williams Middle School – we noted that funds received were not consistently deposited in a timely manner. We reviewed four cash receipt batches and noted that 2 of the 4 were deposited 77 days after receipt and the remaining 2 receipts were deposited 21 to 29 days after the original receipt date. In addition, we were unable to locate pre-approval in the council minutes for 9 of the 13 expenses reviewed.

Williams Middle School – We reviewed the ticket sales records for the Halloween dance held during October 2008 and noted inconsistencies between documents. The "report on ticket sales" form reported a total of 45 tickets sold. However, there were a total of 250 tickets sold per the ticket log and the "count sheet" summarizing funds collected for the event. We also noted that ticket logs were maintained for dances, but not for Basketball games.

Tracy High School – We noted that Student store sells clothing and issues receipts for items purchased. Amounts received for these sales are commingled with other funds and deposited in one lump sum. At the time of our visit, no record existed indicating which ASB student store sales receipts were part of which deposits, and what other funds were included in the deposits. In addition, a money market account was recorded based on the July 2009 ending balance rather than the June 2009 balance.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

Questioned costs

There are no questioned costs associated with this condition.

Context

During our visits to the sites to observe the controls over the associated student body accounts we noted the above areas which provide opportunities for the strengthening of internal controls over the funds managed at decentralized locations.

Effect

The opportunity for potential theft or misstatement of the ASB funds is higher than it would otherwise be.

Cause

Decentralized operations dependent on the actions of many individuals and some individuals may not be aware of or may not follow established procedures. Control and monitoring activities were not effective in identifying the above areas.

Recommendation

The district should continue its efforts to work with site personnel and take actions to correct the above-mentioned issues. The District should consider continuing to provide annual in-house training to site personnel, and periodically review the site progress of improvement regarding these issues.

Current Status

Partially implemented, see 2010-1.