

SEPARATE COVER ITEM

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**TRACY UNIFIED
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2011**

TRACY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
Tracy Unified School District
Piedmont, 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, 2011, 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 2010-11*, 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, each major fund, and the aggregate remaining fund information of the Tracy Unified School District, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, 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.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 18.

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.

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 are not a required part of the basic financial statements, but are 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 on it.

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, 2011

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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, 2011. 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, 2011

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, 2011

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$317.1 million for the fiscal year ended June 30, 2011 as compared to \$301.3 million for the fiscal year ended 2010. Of this amount, \$24.0 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	
	2011	2010
Current and other assets	\$ 117.6	\$ 88.0
Capital assets	303.2	292.3
Total Assets	420.8	380.3
Current liabilities	19.8	16.3
Long-term debt	83.5	62.7
Total Liabilities	103.3	79.0
Net assets		
Invested in capital assets, net of related debt	260.6	251.0
Restricted	32.9	35.4
Unrestricted	24.0	14.9
Total Net Assets	\$ 317.5	\$ 301.3

The \$24.0 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 13. 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, 2011

TABLE 2

(Amounts in millions)

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 3.1	\$ 3.5
Operating grants and contributions	20.5	22.1
Capital grants and contributions	10.2	2.5
General revenues:		
Federal and State aid	75.1	68.7
Property taxes	28.9	30.0
Other general revenues	9.2	5.8
Total Revenues	147.0	132.6
Expenses		
Instruction-related	96.1	99.2
Student support services	12.8	12.2
Administration	4.4	5.0
Maintenance and operations	13.0	12.6
Other	4.5	8.3
Total Expenses	130.8	137.3
Change in Net Assets	\$ 16.2	\$ (4.7)

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$130.8 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$28.9 million because the cost was paid by those who benefited from the programs (\$3.1 million) by other governments and organizations who subsidized certain programs with grants and contributions (\$30.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$75.1 million in State and Federal aid, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net 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, 2011

TABLE 3

(Amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$ 81.6	\$ 84.0	\$ 59.9	\$ 69.3
Instruction related activities	14.5	15.1	12.5	13.1
Pupil services	12.8	12.2	6.5	5.7
General administration	4.4	5.0	3.6	4.1
Plant services and construction	13.0	12.6	12.4	12.4
Ancillary and community service	0.9	1.2	1.0	1.2
Other	3.6	7.2	1.0	3.3
Totals	\$ 130.8	\$ 137.3	\$ 96.9	\$ 109.1

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$99.9 million, which is an increase of \$26.0 million from last year (Table 4).

TABLE 4

(Amounts in millions)

	Fund Balance	
	2011	2010
General	\$ 38.2	\$ 32.0
Building	39.9	20.2
County School Facilities	5.1	7.3
Capital Facilities	10.1	8.7
Cafeteria	2.6	2.4
Special Reserve-Capital Outlay	0.5	-
TSFFA Bond Interest and Redemption	0.4	-
Bond Interest and Redemption	3.5	3.3
Totals	\$ 100.3	\$ 73.9

The primary reasons for the changes between 2010 and 2011 are:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$6.2 million, to \$38.2 million. This increase is the result of the receipt of Federal Jobs funding, which will be used during the 2011-12 fiscal year. During the 2010-11 fiscal year; expenditures were reduced to offset reductions in the California State Budget.
- The Building Fund increased \$19.7 million to \$39.9 million. This increase is the result of the sale of three bond series resulting in \$25 million in bond proceeds.
- The County School Facilities Fund decreased \$2.2 million to \$5.1 million. This decrease is the result of the substantial completion of Kimball High school project and inter-fund transfers to the Capital Facilities Fund.
- The Capital Facilities Fund increased \$1.4 million to \$10.1 million. The increase is the result of inter-fund transfers from the County Schools Facilities Fund and the receipt of Mountain House fees.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

- The Special Reserve Capital Outlay Fund increased \$0.4 million to \$0.5 million. The increase is the result of the set aside of pool replacement funds as per the agreement with the City of Tracy.
- The Bond Interest and Redemption Fund increased \$0.2 million to \$3.5 million. The increase is the result of the current year property tax receipts exceeding required current year expenditures.

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, 2011. 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 51.

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

- \$2.9 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, \$4.5 million of unrestricted funds were not spent as projected during the current year. 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, 2011, the District had \$303.2 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 \$10.9 million, or 4 percent, from last year (Table 5).

TABLE 5

(Amounts in millions)

	Capital Assets	
	2011	2010
Land and construction in progress	\$ 61.7	\$ 120.6
Buildings and improvements	312.9	236.9
Equipment	11.5	9.7
Subtotal	386.1	367.2
Accumulated Depreciation	(82.9)	(74.9)
Net Capital Assets	\$ 303.2	\$ 292.3

This year's additions of \$10.9 million included the continuation of construction projects, primarily at McKinley Elementary School, North School, Monte Vista Middle School and Tracy, West, and Kimball High Schools and the purchase of equipment and vehicles and technology improvements at all district schools.

Several capital projects are planned for the 2011-2012 year. We do not expect full completion of most of these projects; consequently we anticipate \$25 million in capital additions for the 2011-12 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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	
	2011	2010
General obligation bonds (financed with property taxes)	\$ 81.6	\$ 60.3
Compensated absences	0.1	0.1
Capital leases	-	0.1
Supplemental early retirement plan	0.8	1.1
Other postemployment benefits	2.2	2.1
Totals	\$ 84.7	\$ 63.7

The Tracy School Facilities Financing Authority is a component unit of the Tracy Unified School District and was organized to facilitate funding of general obligation bonds. See page 21 for more information about the TSFFA. Individually prepared financial statements for the TSFFA may be obtained through the business office of the District.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-2011 ARE NOTED BELOW:

- Successfully added a junior class to the district's third comprehensive high school, John C. Kimball High. The school was opened in 2009-2010 with freshmen and sophomore students attending a fully-equipped high school campus.
- Resourcefully completed planned projects and 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.
- Continued planning the remaining projects of the Measure E project list and made significant progress 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 \$4.4 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.
- Increased district-wide attendance from 95.1 to 95.8 percent between 2008 and 2011.
- Successfully increased API 42 points between 2006 and 2010. All subgroups have shown gains of at least 40 points during this same time period. The percent of students scoring proficient in ELA has increased from 44 to 53% and in Math from 42 to 49% between 2006 and 2010. All subgroups have also shown gains in the percent scoring proficient in ELA and Math.
- Continued to see a decrease in expulsions. Between 2006 and 2010 there was approximately a 40 percent decrease in expulsions.

TRACY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

- 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.
- 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2011-2012 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:

	Staffing Ratio	Enrollment
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, 2011

	Governmental Activities
ASSETS	
Deposits and investments	\$ 90,554,559
Receivables	26,788,406
Prepaid expenses	12,907
Stores inventories	310,699
Capital assets not depreciated	61,705,229
Capital assets, net of accumulated depreciation	241,462,349
Total Assets	420,834,149
LIABILITIES	
Accounts payable	5,267,978
Interest payable	1,202,788
Deferred revenue	3,296,214
Current loans	8,816,256
Current portion of long-term obligations	1,266,859
Noncurrent portion of long-term obligations	83,466,837
Total Liabilities	103,316,932
NET ASSETS	
Invested in capital assets, net of related debt	260,617,727
Restricted for:	
Debt service	2,908,121
Capital projects	15,755,687
Educational programs	2,513,112
Other activities	11,703,056
Unrestricted	24,019,514
Total Net Assets	\$ 317,517,217

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

TRACY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

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	\$ 81,558,521	\$ 152,648	\$ 11,284,510	\$ 10,163,997	\$ (59,957,366)
Instruction-related activities:					
Supervision of instruction	2,286,997	23,375	836,726	-	(1,426,896)
Instructional library, media, and technology	3,180,183	478	412,149	-	(2,767,556)
School site administration	8,977,239	26,601	623,404	-	(8,327,234)
Pupil services:					
Home-to-school transportation	3,793,589	187,695	901,261	-	(2,704,633)
Food services	4,522,900	1,195,410	3,522,710	-	195,220
All other pupil services	4,581,803	8,389	640,950	-	(3,932,464)
General administration:					
All other general administration	4,432,359	64,199	760,363	-	(3,607,797)
Plant services	12,940,863	155,127	301,378	-	(12,484,358)
Ancillary services	838,892	-	1,880	-	(837,012)
Community services	125,782	-	-	-	(125,782)
Interest on long-term debt	2,863,709	-	-	-	(2,863,709)
Other outgo	677,403	1,318,583	1,250,746	-	1,891,926
Total Governmental-Type Activities	\$ 130,780,240	\$ 3,132,505	\$ 20,536,077	\$ 10,163,997	(96,947,661)
General revenues and subventions:					
Property taxes, levied for general purposes					24,544,423
Property taxes, levied for debt service					3,851,683
Taxes levied for other specific purposes					485,851
Federal and State aid not restricted to specific purposes					75,050,817
Interest and investment earnings					172,796
Interagency revenues					41,718
Miscellaneous					8,973,262
Subtotal, General Revenues					113,120,550
Change in Net Assets					16,172,889
Net Assets - Beginning					301,344,328
Net Assets - Ending					\$ 317,517,217

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

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TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General Fund	Building Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 25,996,498	\$ 43,244,430	\$ 4,956,440
Receivables	25,762,009	46,411	395,727
Due from other funds	367,256	4,151,102	5,002,915
Prepaid expenses	-	-	-
Stores inventories	215,756	-	-
Total Assets	\$ 52,341,519	\$ 47,441,943	\$ 10,355,082
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,605,876	\$ 2,538,463	\$ 1,066,169
Due to other funds	431,699	5,025,757	4,151,102
Other current liabilities	8,816,256	-	-
Deferred revenue	3,296,214	-	-
Total Liabilities	14,150,045	7,564,220	5,217,271
Fund Balances:			
Nonspendable	230,756	-	-
Restricted	2,513,112	39,877,723	5,137,811
Committed	-	-	-
Assigned	21,639,965	-	-
Unassigned	13,807,641	-	-
Total Fund Balance	38,191,474	39,877,723	5,137,811
Total Liabilities and Fund Balances	\$ 52,341,519	\$ 47,441,943	\$ 10,355,082

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

Non Major Governmental Funds		Total Governmental Funds	
\$	16,357,191	\$	90,554,559
	584,259		26,788,406
	431,699		9,952,972
	12,907		12,907
	94,943		310,699
\$	17,480,999	\$	127,619,543
\$	57,470	\$	5,267,978
	344,414		9,952,972
	-		8,816,256
	-		3,296,214
	401,884		27,333,420
	107,851		338,607
	13,982,288		61,510,934
	544,632		544,632
	2,444,344		24,084,309
	-		13,807,641
	17,079,115		100,286,123
\$	17,480,999	\$	127,619,543

TRACY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Total Fund Balance - Governmental Funds		\$ 100,286,123
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	\$ 386,133,778	
Accumulated depreciation is	(82,966,200)	
Net Capital Assets		303,167,578
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.		(1,202,788)
Long-term liabilities at year end consist of:		
Bonds payable	81,609,637	
Capital leases payable	22,004	
Compensated absences (vacations)	108,855	
Net OPEB obligation	2,196,537	
Supplementary early retirement plan	796,663	
Total Long-Term Liabilities		(84,733,696)
Total Net Assets - Governmental Activities		\$ 317,517,217

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

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TRACY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Building Fund	County School Facilities Fund
REVENUES			
Revenue limit sources	\$ 86,075,362	\$ -	\$ -
Federal sources	8,450,554	-	-
Other state sources	18,375,189	-	10,134,013
Other local sources	8,724,639	620,455	663,028
Total Revenues	121,625,744	620,455	10,797,041
EXPENDITURES			
Current			
Instruction	74,825,651	-	-
Instruction-related activities:			
Supervision of instruction	2,284,594	-	-
Instructional library, media and technology	3,282,244	-	-
School site administration	8,966,276	-	-
Pupil services:			
Home-to-school transportation	3,682,994	-	-
Food services	13,077	-	-
All other pupil services	4,577,256	-	-
General administration:			
All other general administration	4,442,480	-	-
Plant services	11,111,847	719,521	244,189
Facility acquisition and construction	164,621	2,827,735	14,207,008
Ancillary services	838,060	-	-
Community services	125,657	-	-
Other outgo	677,403	-	-
Debt service			
Principal	47,812	-	-
Interest and other	1,172	-	-
Total Expenditures	115,041,144	3,547,256	14,451,197
Excess (Deficiency) of			
Revenues Over Expenditures	6,584,600	(2,926,801)	(3,654,156)
Other Financing Sources (Uses):			
Transfers in	67,732	4,341,192	6,834,396
Other sources	-	25,154,748	-
Transfers out	(434,039)	(6,857,238)	(5,341,192)
Net Financing Sources (Uses)	(366,307)	22,638,702	1,493,204
NET CHANGE IN FUND BALANCES	6,218,293	19,711,901	(2,160,952)
Fund Balance - Beginning, as Restated	31,973,181	20,165,822	7,298,763
Fund Balance - Ending	\$ 38,191,474	\$ 39,877,723	\$ 5,137,811

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

Non Major Governmental Funds	Total Governmental Funds
\$ -	\$ 86,075,362
3,491,191	11,941,745
500,279	29,009,481
6,398,967	16,407,089
10,390,437	143,433,677
117,313	74,942,964
134	2,284,728
-	3,282,244
64,141	9,030,417
-	3,682,994
4,571,062	4,584,139
-	4,577,256
195,492	4,637,972
282,222	12,357,779
708,107	17,907,471
-	838,060
-	125,657
-	677,403
720,000	767,812
2,912,740	2,913,912
9,571,211	142,610,808
819,226	822,869
2,048,929	13,292,249
-	25,154,748
(263,393)	(12,895,862)
1,785,536	25,551,135
2,604,762	26,374,004
14,474,353	73,912,119
\$ 17,079,115	\$ 100,286,123

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, 2011

Total Net Change in Fund Balance - Governmental Funds	\$	26,374,004
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	\$	(8,079,973)
Capital outlays		18,923,635
Net Expense Adjustment		10,843,662
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.		(32,046)
Payment of capital assets 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.		77,890
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 used was more than the amounts earned.		16,890
Proceeds received from the sale of bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		(21,999,637)
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.		720,000
In the statement of activities, unfunded Annual Required Contribution (ARC) is recognized as an expense, but is not recognized in the governmental funds.		(113,554)
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.		20,125
Change in Net Assets of Governmental Activities	\$	16,172,889

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

TRACY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUND

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Agency Fund
ASSETS	
Deposits and investments	\$ 1,109,770
Total Assets	<u>\$ 1,109,770</u>
LIABILITIES	
Due to student groups	\$ 1,109,770
Total Liabilities	<u>\$ 1,109,770</u>

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

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component unit, although a legally separate entity is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Tracy School Facilities Financing Authority's financial activity is presented in the financial statements as the TSFFA Debt Service Fund. Bonds issued by the Authority and purchased by the District are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements of the Authority may be obtained through the business office of the District.

Charter School The District has approved Charters for three Charter Schools pursuant to Education Code Section 47605, Discovery Charter, Primary Charter, and Millennium Charter and Kaplan Academy of California. 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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 and report all financial resources not accounted for and reported in another fund.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund do not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within these funds would be considered to be available for general educational purposes, resulting in Fund 11, Adult Education Fund and Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, liabilities, fund balance, revenues and expenditures of \$9,511,818, \$316,845, \$9,194,973, \$708,500, and \$616,410, respectively.

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 of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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).

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (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).

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 used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

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).

TSFFA Fund The TSFFA Fund is used to account for the activity related to the TSFFA component unit bond repayments.

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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

Investments

Investments held at June 30, 2011, 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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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 Balances – Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolution or other action as approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board had provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted minimum fund balance for the General fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

Changes in Accounting Principles

In March 2009, the GASB issued 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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 90,554,559
Fiduciary funds	1,109,770
Total Deposits and Investments	<u>\$ 91,664,329</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 1,509,772
Cash in revolving	15,000
Investments	90,139,557
Total Deposits and Investments	<u>\$ 91,664,329</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, 2011

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, 2011, was \$90,139,557 and the weighted average maturity of the pool was less than one year.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, approximately \$859,700 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, 2011, 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	\$ 1,816,860	\$ -	\$ -	\$ 414,332	\$ 2,231,192
State Government					
Apportionment	18,306,814	-	-	-	18,306,814
Categorical aid	3,362,611	-	-	51,127	3,413,738
Lottery	1,099,453	-	-	-	1,099,453
Local Government					
Interest	44,502	46,411	9,210	28,315	128,438
Other Local Sources	1,131,769	-	386,517	90,485	1,608,771
Total	<u>\$ 25,762,009</u>	<u>\$ 46,411</u>	<u>\$ 395,727</u>	<u>\$ 584,259</u>	<u>\$ 26,788,406</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 27,381,639	\$ 9,629,964	\$ -	\$ 37,011,603
Construction in Progress	93,211,834	14,777,103	83,295,311	24,693,626
Total Capital Assets Not Being Depreciated	120,593,473	24,407,067	83,295,311	61,705,229
Capital Assets Being Depreciated:				
Land Improvements	16,169,173	7,991,428	-	24,160,601
Buildings and Improvements	220,777,335	67,996,661	-	288,773,996
Furniture and Equipment	2,967,679	1,423,531	-	4,391,210
Vehicles	6,702,483	400,259	-	7,102,742
Total Capital Assets Being Depreciated	246,616,670	77,811,879	-	324,428,549
Total Capital Assets	367,210,143	102,218,946	83,295,311	386,133,778
Less Accumulated Depreciation:				
Land Improvements	6,973,564	992,420	-	7,965,984
Buildings and Improvements	62,192,545	5,886,901	-	68,079,446
Furniture and Equipment	1,411,264	720,569	-	2,131,833
Vehicles	4,308,854	480,083	-	4,788,937
Total Accumulated Depreciation	74,886,227	8,079,973	-	82,966,200
Governmental Activities Capital Assets, Net	\$ 292,323,916	\$ 94,138,973	\$ 83,295,311	\$ 303,167,578

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

Governmental Activities	
Instruction	\$ 6,541,228
Instructional library, media, and technology	459,178
School site administration	97,396
Home-to-school transportation	507,196
Food services	54,193
All other general administration	331,642
Plant services	89,140
Total Depreciation Expenses Governmental Activities	\$ 8,079,973

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, between major and non-major governmental funds are as follows:

Due From	Due To				Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 24,782	\$ -	\$ 342,474	\$ 367,256
Building Fund	-	-	4,151,102	-	4,151,102
County School Facilities Fund	-	5,000,975	-	1,940	5,002,915
Non-Major Governmental Funds	431,699	-	-	-	431,699
Total	<u>\$ 431,699</u>	<u>\$ 5,025,757</u>	<u>\$ 4,151,102</u>	<u>\$ 344,414</u>	<u>\$ 9,952,972</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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 24,782	\$ -	\$ 42,950	\$ 67,732
Building Fund	-	-	4,341,192	-	4,341,192
County School Facilities Fund	-	6,832,456	-	1,940	6,834,396
Non-Major Governmental Funds	434,039	-	1,000,000	-	1,434,039
Total	<u>\$ 434,039</u>	<u>\$ 6,857,238</u>	<u>\$ 5,341,192</u>	<u>\$ 44,890</u>	<u>\$ 12,677,359</u>

The General Fund transferred to the Child Development Fund to cover expenditures.	\$ 15,000
The General Fund transferred to the Special Reserve Fund for West High School Pool-City Partnership Agreement.	149,673
The Building Fund transferred to the County School Facilities Fund for construction expenditure reimbursement.	6,500,975
The Building Fund transferred to the General Fund for Measure E administrative expenditure reimbursement.	12,349
The Cafeteria Fund transferred to the County School Facilities Fund for construction expenditure reimbursement.	1,940
The Building Fund transferred to the General Fund for Measure S administrative expenditure reimbursement.	12,433
The Building Fund transferred to the County School Facilities Fund for construction expenditure reimbursement.	331,481
The Capital Facilities Fund transferred to the General Fund for reimbursement of administrative expenditures.	22,675
The County School Facilities Fund transferred to the Building Fund for construction expenditure reimbursement.	251,040
The County School Facilities Fund transferred to the Building Fund for construction expenditure reimbursement.	4,089,601
The County School Facilities Fund transferred to the Capital Facilities Fund for construction expenditure reimbursement.	1,000,000
The County School Facilities Fund transferred to the Building Fund for miscellaneous expenditure reimbursement.	551
The General Fund transferred to the Special Reserve Fund for West High School Pool-City Partnership Agreement.	269,366
The Community Facilities Mello Roos Fund transferred to the General Fund for salary and miscellaneous expenditure reimbursement.	20,275
	<u>\$ 12,677,359</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,208,311	\$ 2,538,463	\$ 1,066,169	\$ 32,437	\$ 4,845,380
State apportionment	22,368	-	-	-	22,368
Salaries and benefits	375,197	-	-	25,033	400,230
Total	<u>\$ 1,605,876</u>	<u>\$ 2,538,463</u>	<u>\$ 1,066,169</u>	<u>\$ 57,470</u>	<u>\$ 5,267,978</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund
Federal financial assistance	\$ 3,166,338
State categorical aid	21,081
Other local	108,795
Total	<u>\$ 3,296,214</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On April 14, 2011, the District issued \$8,840,000 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, 2011. 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, 2010	Additions	Interest	Deductions	Outstanding June 30, 2011
April 14, 2011	2.5%	December 30, 2011	<u>\$ 9,223,943</u>	<u>\$ 8,840,000</u>	<u>\$ 71,972</u>	<u>\$ 9,319,659</u>	<u>\$ 8,816,256</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$60,330,000	\$ 21,999,637	\$ 720,000	\$ 81,609,637	\$ 990,000
Compensated absences	125,745	-	16,890	108,855	-
Capital leases	99,894	-	77,890	22,004	11,304
Other postemployment benefits	2,082,983	113,554	-	2,196,537	-
Supplementary early retirement plan	1,062,218	-	265,555	796,663	265,555
	<u>\$63,700,840</u>	<u>\$ 22,113,191</u>	<u>\$ 1,080,335</u>	<u>\$ 84,733,696</u>	<u>\$ 1,266,859</u>

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, 2010	Issued	Redeemed	Bonds Outstanding June 30, 2011
July 2006	8/1/2031	4.00% - 8.00%	\$ 14,000,000	\$ 11,545,000	\$ -	\$ 305,000	\$ 11,240,000
July 2007	8/1/2032	4.00% - 8.00%	\$ 20,000,000	19,785,000	-	210,000	19,575,000
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	-	205,000	11,795,000
April 2011	8/1/2026	3.00%	\$ 16,000,000	-	16,000,000	-	16,000,000
April 2011	8/1/2035	6.60% - 8.54%	\$ 5,999,637	-	5,999,637	-	5,999,637
				<u>\$ 60,330,000</u>	<u>\$21,999,637</u>	<u>\$ 720,000</u>	<u>\$ 81,609,637</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Debt Service Requirements to Maturity

The general obligation bonds have debt service requirements as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 990,000	\$ 3,207,289	\$ 4,197,289
2013	1,155,000	3,281,363	4,436,363
2014	1,382,000	3,214,333	4,596,333
2015	1,580,000	3,138,980	4,718,980
2016	1,793,000	3,058,695	4,851,695
2017-2021	12,755,000	13,957,740	26,712,740
2022-2026	24,430,000	10,593,547	35,023,547
2027-2031	22,309,309	9,623,343	31,932,652
2032-2036	10,527,166	9,823,391	20,350,557
2037-2041	3,700,852	12,067,533	15,768,385
2042	987,310	2,403,370	3,390,680
Total	<u>\$ 81,609,637</u>	<u>\$ 74,369,584</u>	<u>\$ 155,979,221</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$108,855.

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
2012	\$ 11,304
2013	10,428
2014	7,261
Total	<u>28,993</u>
Less: Amount Representing Interest	(6,989)
Present Value of Minimum Lease Payments	<u>\$ 22,004</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Lease land, buildings, and equipment under capital leases in capital assets at June 30, 2011, include the following:

Equipment	\$ 45,037
Less: Accumulated Depreciation	16,889
Total	<u>\$ 28,148</u>

Supplementary Early Retirement Plan

The District implemented a supplementary early retirement plan (the Plan) during the year ended June 30, 2010. 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's annual required contribution for the year ended June 30, 2011, was \$2,148,097, and contributions made by the District during the year were \$2,034,543. As of June 30, 2011, the net OPEB obligation was \$2,196,537. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Stores inventories	215,756	-	-	94,943	310,699
Prepaid expenditures	-	-	-	12,908	12,908
Total Nonspendable	230,756	-	-	107,851	338,607
Restricted					
Legally restricted programs	2,513,112	-	-	-	2,513,112
Capital projects	-	39,877,723	5,137,811	10,088,994	55,104,528
Debt services	-	-	-	3,893,294	3,893,294
Total Restricted	2,513,112	39,877,723	5,137,811	13,982,288	61,510,934
Committed					
Child development program	-	-	-	544,632	544,632
Total Committed	-	-	-	544,632	544,632
Assigned					
\$260 per ADA Reduction	12,106,941	-	-	-	12,106,941
Other	9,533,024	-	-	2,444,344	11,977,368
Total Assigned	21,639,965	-	-	2,444,344	24,084,309
Unassigned					
Reserve for economic uncertainties	3,361,156	-	-	-	3,361,156
Remaining unassigned	10,446,485	-	-	-	10,446,485
Total Unassigned	13,807,641	-	-	-	13,807,641
Total	\$ 38,191,474	\$ 39,877,723	\$ 5,137,811	\$ 17,079,115	\$ 100,286,123

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 109 retirees and beneficiaries currently receiving benefits and 1,131 active plan members and 3 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.

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 2010-11, the District contributed \$2,034,543 to the plan, all of which was used for current premiums (approximately 95 percent of current year's annual required contributions).

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	\$ 2,148,097
Contributions made	(2,034,543)
Increase in net OPEB obligation	113,554
Net OPEB obligation, beginning of year	2,082,983
Net OPEB obligation, end of year	<u>\$ 2,196,537</u>

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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
2011	2,034,543	2,148,097	95%	2,196,537

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.

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 April 1, 2009 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 April 1, 2009, 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, 2011, 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, 2011

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.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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).

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 2010-2011 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, 2011, 2010, and 2009, were \$4,647,923, \$4,901,566, and \$5,077,659, 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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$1,830,606, \$1,714,287 and \$1,674,045, respectively, and equal 100 percent of the required contributions for each year.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 \$2,388,217 (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, 2011.

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, 2011.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Surveillance Cameras		
Bohn Elementary School	\$ 85,410	12/31/11
Central Elementary School	121,600	12/31/11
Freiler School	71,720	12/31/11
Hirsch Elementary School	66,745	12/31/11
Jacobson Elementary School	80,211	12/31/11
McKinley Elementary School	8,107	12/31/11
South/West Park Elementary School	121,600	12/31/11
Villalovoz Elementary School	76,203	12/31/11
North School	121,600	12/31/11
Kelly School	76,203	12/31/11
Poet-Christian School	67,237	12/31/11
Monte Vista Middle School	8,107	12/31/11
Williams Middle School	80,685	12/31/11
Duncan Russell Continuation High School	35,860	12/31/11
Stein Continuation High School	53,790	12/31/11
Kimball High School	124,878	12/31/11
Tracy High School	134,475	12/31/11
West High School	179,300	12/31/11
Institute for Global Commerce & Government	13,448	12/31/11
Modernization of Cabling Communication Infrastructure		
Bohn Elementary School	2,831	11/8/2011
Freiler School	43,969	8/23/2011
Hirsch Elementary School	3,174	11/8/2011
Jacobson Elementary School	5,967	11/8/2011
South/West Park Elementary School	2,145	11/8/2011
Villalovoz Elementary School	2,831	11/8/2011
North School	2,145	11/8/2011
Kelly School	8,280	9/27/2011
Poet-Christian School	33,707	7/22/2011
Williams Middle School	4,888	11/8/2011
Duncan Russell Continuation High School	1,117	11/8/2011
Stein Continuation High School	1,631	11/8/2011
West High School	221,837	7/22/2011
Institute for Global Commerce & Government	26,885	8/23/2011
Projection Systems		
Freiler School	1,487	8/9/2011
Kelly School	1,379	8/9/2011
Poet-Christian School	1,487	8/9/2011
West High School	1,487	8/9/2011
SDC Play Structure & Pour-in-Place Rubber Surface		
McKinley Elementary School	60,408	9/30/2011
Modernization		
McKinley Elementary School	5,826,956	9/12/2012
Monte Vista Middle School	13,268,307	9/12/2012
Tracy High School	241,299	9/27/2011
Performing Arts Classroom		
West High School	2,014,536	11/30/2011
Pre-Unification Agreement		
Return Developer Fees for Mountain House High School	7,938,657	8/8/2011
	<u>\$ 31,244,589</u>	

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, the District made payment of \$1,266,872 to San Joaquin County Schools Workers' Compensation and \$371,790 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, 2010, 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, 2011

Audited financial information for the Agency is summarized below:

	June 30, 2010* (Audited)
Total Assets	\$ 8,044,481
Total Liabilities	19,155,720
Net Assets	<u>\$ (11,111,239)</u>
 Total Revenues and Other Sources	 \$ 1,959,898
Total Expenditures	1,475,581
Net Increase in Net Assets	<u>\$ 484,317</u>

* Most recent information available.

At June 30, 2010, the Agency had outstanding special tax bonds payable of \$18,880,000 with maturities through 2022.

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), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), 28 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.

NOTE 18 – RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011, to conform to Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balances for Fund 11, Adult Fund, Fund 14, Deferred Maintenance Fund and Fund 17, Special Reserve fund for Other Than Capital Outlay Projects, as presented in Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

TRACY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

As discussed in Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

General Fund

Fund Balance - Beginning	\$ 22,660,064
Change in accounting principles to conform to GASB Statement No. 54	<u>9,313,117</u>
Fund Balance - Beginning as Restated	<u>\$ 31,973,181</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 23,787,470
Change in accounting principles to conform to GASB Statement No. 54	<u>(9,313,117)</u>
Fund Balance - Beginning as Restated	<u>\$ 14,474,353</u>

REQUIRED SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 81,409,548	\$ 85,797,982	\$ 86,075,362	\$ 277,380
Federal sources	5,547,486	9,561,589	8,450,554	(1,111,035)
Other state sources	12,135,256	19,346,838	18,375,189	(971,649)
Other local sources	5,691,664	4,123,966	8,724,639	4,600,673
Total Revenues¹	104,783,954	118,830,375	121,625,744	2,795,369
EXPENDITURES				
Current				
Certificated salaries	55,724,338	59,045,166	57,668,922	1,376,244
Classified salaries	15,864,590	17,141,769	17,029,124	112,645
Employee benefits	21,511,289	22,868,575	24,795,145	(1,926,570)
Books and supplies	6,051,507	6,234,818	4,004,210	2,230,608
Services and operating expenditures	10,356,945	12,317,282	9,947,508	2,369,774
Capital outlay	462,851	1,546,907	1,065,340	481,567
Other outgo	262,631	820,826	481,911	338,915
Debt service				
Debt service - principal	-	-	47,812	(47,812)
Debt service - interest	-	-	1,172	(1,172)
Total Expenditures¹	110,234,151	119,975,343	115,041,144	4,934,199
Excess (Deficiency) of Revenues Over Expenditures	(5,450,197)	(1,144,968)	6,584,600	7,729,568
Other Financing Sources (Uses):				
Transfers in	550,800	-	67,732	67,732
Transfers out	-	74,133	(434,039)	(508,172)
Net Financing Sources (Uses)	550,800	74,133	(366,307)	(440,440)
NET CHANGE IN FUND BALANCES	(4,899,397)	(1,070,835)	6,218,293	7,289,128
Fund Balance - Beginning	31,973,181	31,973,181	31,973,181	-
Fund Balance - Ending	\$ 27,073,784	\$ 30,902,346	\$ 38,191,474	\$ 7,289,128

¹ On behalf payments of \$2,388,217 are included in the actual revenues and expenditures, but have not been included in the budget amounts. In addition, due to the consolidation of Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

TRACY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

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%

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SUPPLEMENTARY INFORMATION

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

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	\$ 88,358
Adult Education - English Literacy & Civics Education	84.002A	14109	10,001
Adult Education - Adult Secondary Education	84.002	13978	17,386
English Language Initiative	84.215K	[2]	84,433
ARRA - State Fiscal Stabilization Fund	84.394	25008	3,168,829
Elementary and Secondary Education Act			
Title I - Part A, Basic Grants Low-Income and Neglected	84.010	14981	2,194,663
ARRA - Title I - Part A, Basic Grants Low-Income and Neglected	84.389	15005	95,328
Title I - Part C, Migrant Education - Regular	84.011	14326	27,598
Indian Education	84.060	10011	29,078
Special Education Grants			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	2,241,607
Basic Local Assistance Entitlement, Part B, Section 611, Private School ISP's	84.027	10115	36,241
ARRA - Basic Local Assistance Entitlement, Part B, Section 611, Private School ISP's	84.391	10123	12,891
Preschool Local Entitlement, Part B, Section 611	84.027A	13682	148,538
Preschool Grants, Part B, Section 619	84.173	13430	53,496
ARRA - Part B, Section 611 Basic Local Assistance	84.391A	15003	529,155
ARRA - Part B, Section 611 Preschool Entitlement	84.391A	15002	10,674
ARRA - Part B, Section 611 Preschool Grant	84.392A	15000	11,694
Vocational Educational Grants			
Title II - Part A, Teacher Quality	84.367	14341	404,767
Title II - Part A, Administrator Training	84.367	14344	237
Title II - Part D, Enhancing Education Through Technology	84.318	14334	9,357
ARRA - Title II - Part D, Enhancing Education Through Technology	84.386	15019	32,749
Title III - Limited English Proficiency	84.365	10084	253,501
Title IV - Drug Free Schools	84.186	14347	49,561
Technology Secondary II C, Section 131	84.048	14894	129,303
Subtotal			<u>9,639,445</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the California Department of Education:			
National School Lunch Program	10.553	13390	3,488,310
Commodities ¹	10.550	13755	<u>179,832</u>
Subtotal			<u>3,668,142</u>

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
ARRA - Child Development: Quality Improvement Activities	93.713	15010	873
Child Development, Infant/Toddler Child Care Resource	93.575	^[2]	2,008
Medi-Cal Administrative Activities (MAA)	93.778	10060	1,103,243
Medi-Cal Billing Option	93.778	10013	110,248
Subtotal			<u>1,216,372</u>
Total expenditures of federal awards			<u>\$ 14,523,959</u>

¹ Not included in the financial statements.

² Pass-through number not available.

TRACY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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>
Walter Gouveia	President	2012
Gregory Crandall	Vice President	2014
Jill Costa	Clerk	2014
James Vaughn	Member	2012
Ted Guzman	Member	2014
Greg Silva	Member	2014
Bill Swenson	Member	2014

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, 2011

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	947	944
First through third	3,052	3,051
Fourth through sixth	3,031	3,030
Seventh and eighth	2,103	2,100
Home and hospital	2	2
Special education	289	289
Community Day School	5	7
Total Elementary	9,429	9,423
SECONDARY		
Regular classes	5,573	5,531
Continuation education	197	195
Home and hospital	17	16
Special education	189	187
Community Day School	21	27
Total Secondary	5,997	5,956
Total K-12	15,426	15,379

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2011

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	32,208	31,313	36,000	35,000	36,496	180	174	In Compliance
Grades 1 - 3	44,528	43,291	50,400	49,000				
Grade 1					52,185	180	174	In Compliance
Grade 2					52,185	180	174	In Compliance
Grade 3					52,185	180	174	In Compliance
Grades 4 - 6	54,560	53,044	54,000	52,500				
Grade 4					55,616	180	174	In Compliance
Grade 5					55,616	180	174	In Compliance
Grade 6					56,565	180	174	In Compliance
Grades 7 - 8	54,560	53,044	54,000	52,500				
Grade 7					58,365	180	174	In Compliance
Grade 8					58,365	180	174	In Compliance
Grades 9 - 12	58,000	56,389	64,800	63,000				
Grade 9					65,031	180	N/A	In Compliance
Grade 10					65,031	180	N/A	In Compliance
Grade 11					65,031	180	N/A	In Compliance
Grade 12					65,088	180	N/A	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, 2011

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, 2011, Unaudited Actuals	\$ 81,719,248
Increase in:	
OPEB Obligation	2,196,537
Supplementary Early Retirement Plan	796,663
Compensated Absences	21,720
Decrease in:	
Capital leases	(472)
Total Liabilities, June 30, 2011, Audited Financial Statement	<u>\$ 84,733,696</u>
FORM ASSET	Form Asset
Total Capital Assets, June 30, 2011, Unaudited Actuals	\$ -
Increase in:	
Land	37,011,603
Land Improvements	24,160,601
Buildings and Improvements	288,773,996
Furniture and Equipment	4,391,210
Vehicles	7,102,742
Construction in Progress	24,693,626
Accumulated Depreciation - Land Improvements	(7,965,984)
Accumulated Depreciation - Buildings and Improvements	(68,079,446)
Accumulated Depreciation - Furniture and Equipment	(2,131,833)
Accumulated Depreciation - Vehicles	(4,788,937)
Total Capital Assets, June 30, 2011, Audited Financial Statement	<u>\$ 303,167,578</u>

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

	(Budget) 2012 ¹	2011 ⁴	2010	2009
GENERAL FUND ⁴				
Revenues	\$ 116,275,557	\$ 121,625,744	\$ 117,852,882	\$ 130,138,456
Other sources and transfers in	57,300	67,732	5,336,772	3,215,595
Total Revenues and Other Sources	116,332,857	121,693,476	123,189,654	133,354,051
Expenditures	115,999,099	115,041,144	119,389,563	125,781,841
Other uses and transfers out	-	434,039	849,851	1,252,219
Total Expenditures and Other Uses	115,999,099	115,475,183	120,239,414	127,034,060
INCREASE (DECREASE) IN FUND BALANCE	\$ 333,758	\$ 6,218,293	\$ 2,950,240	\$ 6,319,991
ENDING FUND BALANCE	\$ 38,525,232	\$ 38,191,474	\$ 31,973,181	\$ 19,709,824
AVAILABLE RESERVES ²	\$ 13,190,720	\$ 13,807,641	\$ 15,108,792	\$ 9,175,871
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	11.37%	12.21%	12.83%	7.38%
LONG-TERM DEBT	\$ 83,466,837	\$ 84,733,696	\$ 63,700,840	\$ 64,293,766
K-12 AVERAGE DAILY ATTENDANCE AT P-2	15,393	15,435	15,494	15,517

The General Fund balance has increased by \$18,481,650 over the past two years. The fiscal year 2011-12 budget projects an increase of \$333,758 (less than one 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 \$20,326,376 over the past two years, primarily due to the issuance of government obligation bonds of \$22 million in 2010-11.

Average daily attendance has decreased by 82 over the past two years. A decrease of 42 ADA is anticipated during fiscal year 2011-12.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ On-behalf payments of \$2,388,217, \$2,518,369, and \$2,773,030, respectively, have been excluded from the calculation of available reserves for fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ General Fund amounts include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Other Than Capital Outlay Projects.

TRACY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2011**

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

See accompanying note to supplementary information.

TRACY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2011

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 1,386	\$ 2,340,143	\$ 10,022,535
Receivables	14,549	454,323	103,642
Due from other funds	12,610	50	-
Prepaid expenses	-	12,907	-
Stores inventories	-	94,943	-
Total Assets	\$ 28,545	\$ 2,902,366	\$ 10,126,177
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,196	\$ 36,036	\$ 15,238
Due to other funds	7,329	314,135	22,675
Total Liabilities	13,525	350,171	37,913
Fund Balances:			
Nonspendable	-	107,851	-
Restricted	-	-	10,088,264
Committed	15,020	-	-
Assigned	-	2,444,344	-
Total Fund Balance	15,020	2,552,195	10,088,264
Total Liabilities and Fund Balances	\$ 28,545	\$ 2,902,366	\$ 10,126,177

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	Building CFD Fund	TSFFA Bond Interest and Redemption Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 110,416	\$ 987	\$ 396,387	\$ 3,485,337	\$ 16,357,191
157	18	-	11,570	584,259
419,039	-	-	-	431,699
-	-	-	-	12,907
-	-	-	-	94,943
<u>\$ 529,612</u>	<u>\$ 1,005</u>	<u>\$ 396,387</u>	<u>\$ 3,496,907</u>	<u>\$ 17,480,999</u>
\$ -	\$ -	\$ -	\$ -	\$ 57,470
-	275	-	-	344,414
-	275	-	-	401,884
-	-	-	-	107,851
-	730	396,387	3,496,907	13,982,288
529,612	-	-	-	544,632
-	-	-	-	2,444,344
<u>529,612</u>	<u>730</u>	<u>396,387</u>	<u>3,496,907</u>	<u>17,079,115</u>
<u>\$ 529,612</u>	<u>\$ 1,005</u>	<u>\$ 396,387</u>	<u>\$ 3,496,907</u>	<u>\$ 17,480,999</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, 2011

	Child Development Fund	Cafeteria Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 2,881	\$ 3,488,310	\$ -
Other state sources	160,652	302,019	-
Other local sources	182	1,357,686	1,191,552
Total Revenues	<u>163,715</u>	<u>5,148,015</u>	<u>1,191,552</u>
EXPENDITURES			
Current			
Instruction	117,313	-	-
Instruction-related activities:			
Supervision of instruction	134	-	-
School site administration	64,141	-	-
Pupil services:			
Food services	-	4,571,062	-
General administration:			
All other general administration	7,300	188,192	-
Plant services	-	215,101	67,105
Facility acquisition and construction	-	11,264	696,843
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>188,888</u>	<u>4,985,619</u>	<u>763,948</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>(25,173)</u>	<u>162,396</u>	<u>427,604</u>
Other Financing Sources (Uses):			
Transfers in	15,000	-	1,000,000
Other sources	-	-	-
Transfers out	-	(1,940)	(22,675)
Other uses	-	-	-
Net Financing Sources (Uses)	<u>15,000</u>	<u>(1,940)</u>	<u>977,325</u>
NET CHANGE IN FUND BALANCES	<u>(10,173)</u>	<u>160,456</u>	<u>1,404,929</u>
Fund Balance - Beginning, as Restated	<u>25,193</u>	<u>2,391,739</u>	<u>8,683,335</u>
Fund Balance - Ending	<u>\$ 15,020</u>	<u>\$ 2,552,195</u>	<u>\$ 10,088,264</u>

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	Building CFD Fund	TSFFA Bond Interest and Redemption Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 3,491,191
-	-	-	37,608	500,279
520	20,256	-	3,828,771	6,398,967
520	20,256	-	3,866,379	10,390,437
-	-	-	-	117,313
-	-	-	-	134
-	-	-	-	64,141
-	-	-	-	4,571,062
-	-	-	-	195,492
-	16	-	-	282,222
-	-	-	-	708,107
-	-	-	720,000	720,000
-	-	-	2,912,740	2,912,740
-	16	-	3,632,740	9,571,211
520	20,240	-	233,639	819,226
419,039	-	-	-	1,434,039
-	-	614,890	-	614,890
-	(20,275)	-	-	(44,890)
-	-	(218,503)	-	(218,503)
419,039	(20,275)	396,387	-	1,785,536
419,559	(35)	396,387	233,639	2,604,762
110,053	765	-	3,263,268	14,474,353
\$ 529,612	\$ 730	\$ 396,387	\$ 3,496,907	\$ 17,079,115

TRACY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amounts consist primarily of ARRA: State Fiscal Stabilization Fund funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number(s)	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 11,941,745
ARRA: State Fiscal Stabilization Fund expenditures in excess of recorded revenue	84.394	2,402,382
Commodities is not included in recorded revenue but is included in expenditures.	N/A	179,832
Total Schedule of Expenditures of Federal Awards		<u>\$ 14,523,959</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.

TRACY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION (CONTINUED) **JUNE 30, 2011**

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.

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INDEPENDENT AUDITORS' REPORTS



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

VALUE THE DIFFERENCE

**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, 2011, which collectively comprise Tracy Unified School District's basic financial statements and have issued our report thereon dated December 14, 2011. 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

The management of Tracy Unified School District is responsible for establishing and maintaining effective 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 a 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 and Federal awarding agencies, 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, 2011



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

VALUE THE DIFFERENCE

**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 Tracy Unified School District's compliance 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's major Federal programs for the year ended June 30, 2011. 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-2.

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-2. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Tracy Unified School District response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Tracy Unified School District's response and, accordingly, we express no opinion on the response.

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, and Federal awarding agencies, 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, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Tracy Unified School District
Tracy, California

We have audited Tracy Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Tracy Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 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 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. 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 are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
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	Not Applicable
After school	4	Not Applicable
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

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 and Federal awarding agencies, 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, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</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?	<u>Yes</u>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.391 (ARRA), 84.392 (ARRA), 84.173	<u>Special Education Cluster (including ARRA)</u>
84.318, 84.367, 84.386 (ARRA)	<u>Title II Cluster (including ARRA)</u>
84.394	<u>State Fiscal Stabilization (ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 435,719</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
-------------------------------------------------------------	--------------------

TRACY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents a significant deficiency, material weakness, and/or instance of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. This finding has been coded as follows:

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

2011-1 **Internal Control – Associated Student Body - 30000** *Significant Deficiency*

Criteria or Specific Requirements

Associated Student Body (ASB) funds are subject to greater loss due to the nature of the transactions being primarily cash and due to the decentralization of the accounting process.

Management is responsible for establishing and maintaining an effective system of internal control to provide 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. Strong internal controls also include an adequate segregation of duties.

Condition

During the audit of the ASB accounts at Art Freiler School, Monte Vista Middle School, and West High School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular, we noted the following:

Art Freiler School

- 3 out of 7 disbursements reviewed were not approved in ASB meeting minutes,
- 3 out of 3 revenue potential forms reviewed were not signed indicating approval,
- ASB expenditures must directly benefit the students. "Pennies for Patients" collected by students were incorrectly deposited into and spent from an ASB bank account.

Monte Vista Middle School

- 5 out of 7 disbursements reviewed were not approved in ASB meeting minutes,
- 3 out of 3 revenue potential forms reviewed were not approved in ASB meeting minutes,
- 2 out of 3 revenue potential forms reviewed were not signed indicating approval,
- 3 out of 12 deposits reviewed were not deposited timely,
- 2 out of 2 ticketed events reviewed did not have supporting ticket log, sales report or summary,
- Reports for student store and vending machine sales are not generated.

TRACY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

West High School

- 1 out of 30 disbursements reviewed was not approved in ASB meeting minutes,
- Reports for student ticketed activity sales are not generated.

In addition to the findings discussed above, we noted at June 30, 2011 there were six schools with stale dated checks in the total amount of \$1,328. School sites are not reconciling their ASB bank statements on a monthly basis.

Questioned costs

None

Context

All ASB cash receipts and disbursements processed at Art Freiler School, Monte Vista Middle School and West High School.

Effect

Without properly designed internal controls in all phases of ASB activities, opportunities exist for the intentional misuse of student funds that may go undetected.

Cause

Monitoring control activities were not effective. Decentralized operations are dependent on the actions of many individuals. Some individuals may not be aware of, or may not follow, established procedures.

Recommendation

The District should continue its efforts to work with site personnel and take action to correct the issues noted above. The District should also consider periodically reviewing the progress and improvement of these issues. In addition, an annual orientation for student leadership related to the use of proper forms as well as the availability of read only access to ASB accounting records may assist students in understanding the business purpose for required forms and how financial records are maintained and summarized.

District Response

The District maintains a constant effort for strong internal controls at our site level. We will continue to offer in-house training to site personnel, along with periodically reviewing of all our sites progress. The District will implement an annual orientation for student leadership in understanding their role in the ASB process.

TRACY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents a significant deficiency, material weakness, and/or material instance of noncompliance including questioned costs that is required to be reported by OMB Circular A-133. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2011-2 Federal Compliance - 50000
Title II Cluster CFDA # 84.318, 84.367, 84.386 (ARRA)
Significant Deficiency - Internal Control over Compliance
Instance of Noncompliance

Criteria or Specific Requirements

Allowable costs – Costs of goods and services charged to Federal awards must be consistent with provisions of OMB Circular A-87 cost principles.

Condition

During our review of expenditures charged to the Title II cluster of programs, we noted one invoice for a software annual renewal fee, totaling approximately \$39,200, which was not allowable.

Questioned Costs

\$39,200.

Context

During our review of expenditures charged to the Title II cluster of programs, we noted the above condition.

Effect

The District is not in compliance with the allowable cost provisions of OMB Circular A-87.

Cause

Lack of a thorough understanding of the allowable costs charged to the Title II cluster of programs.

Recommendation

We recommend that responsible personnel conduct an internal audit of costs charged to this cluster of programs to ensure compliance with the provisions of OMB Circular A-87 cost principles.

District Response

When the responsible personnel establish the annual budget allocation for Title II funds the OMB circular A-87 will be consulted prior to allocating funds for specific expenditures. The District will also consult other online resources to ensure Federal Program compliance.

TRACY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Financial Statement Findings

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</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?	<u>Yes</u>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.391 (ARRA), 84.392 (ARRA), 84.173	<u>Special Education Cluster (including ARRA)</u>
84.318, 84.367, 84.386 (ARRA)	<u>Title II Cluster (including ARRA)</u>
84.394	<u>State Fiscal Stabilization (ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 435,719</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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TRACY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents a significant deficiency, material weakness, and/or instance of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. This finding has been coded as follows:

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

2011-1 Internal Control – Associated Student Body - 30000

Significant Deficiency

Criteria or Specific Requirements

Associated Student Body (ASB) funds are subject to greater loss due to the nature of the transactions being primarily cash and due to the decentralization of the accounting process.

Management is responsible for establishing and maintaining an effective system of internal control to provide 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. Strong internal controls also include an adequate segregation of duties.

Condition

During the audit of the ASB accounts at Art Freiler School, Monte Vista Middle School, and West High School, we noted conditions indicating that operating controls are not functioning at their optimum levels. In particular, we noted the following:

Art Freiler School

- 3 out of 7 disbursements reviewed were not approved in ASB meeting minutes,
- 3 out of 3 revenue potential forms reviewed were not signed indicating approval,
- ASB expenditures must directly benefit the students. "Pennies for Patients" collected by students were incorrectly deposited into and spent from an ASB bank account.

Monte Vista Middle School

- 5 out of 7 disbursements reviewed were not approved in ASB meeting minutes,
- 3 out of 3 revenue potential forms reviewed were not approved in ASB meeting minutes,
- 2 out of 3 revenue potential forms reviewed were not signed indicating approval,
- 3 out of 12 deposits reviewed were not deposited timely,
- 2 out of 2 ticketed events reviewed did not have supporting ticket log, sales report or summary,
- Reports for student store and vending machine sales are not generated.

TRACY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

West High School

- 1 out of 30 disbursements reviewed was not approved in ASB meeting minutes,
- Reports for student ticketed activity sales are not generated.

In addition to the findings discussed above, we noted at June 30, 2011 there were six schools with stale dated checks in the total amount of \$1,328. School sites are not reconciling their ASB bank statements on a monthly basis.

Questioned costs

None

Context

All ASB cash receipts and disbursements processed at Art Freiler School, Monte Vista Middle School and West High School.

Effect

Without properly designed internal controls in all phases of ASB activities, opportunities exist for the intentional misuse of student funds that may go undetected.

Cause

Monitoring control activities were not effective. Decentralized operations are dependent on the actions of many individuals. Some individuals may not be aware of, or may not follow, established procedures.

Recommendation

The District should continue its efforts to work with site personnel and take action to correct the issues noted above. The District should also consider periodically reviewing the progress and improvement of these issues. In addition, an annual orientation for student leadership related to the use of proper forms as well as the availability of read only access to ASB accounting records may assist students in understanding the business purpose for required forms and how financial records are maintained and summarized.

District Response

The District maintains a constant effort for strong internal controls at our site level. We will continue to offer in-house training to site personnel, along with periodically reviewing of all our sites progress. The District will implement an annual orientation for student leadership in understanding their role in the ASB process.

TRACY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following finding represents a significant deficiency, material weakness, and/or material instance of noncompliance including questioned costs that is required to be reported by OMB Circular A-133. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2011-2 Federal Compliance - 50000
Title II Cluster CFDA # 84.318, 84.367, 84.386 (ARRA)
Significant Deficiency - Internal Control over Compliance
Instance of Noncompliance

Criteria or Specific Requirements

Allowable costs – Costs of goods and services charged to Federal awards must be consistent with provisions of OMB Circular A-87 cost principles.

Condition

During our review of expenditures charged to the Title II cluster of programs, we noted one invoice for a software annual renewal fee, totaling approximately \$39,200, which was not allowable.

Questioned Costs

\$39,200.

Context

During our review of expenditures charged to the Title II cluster of programs, we noted the above condition.

Effect

The District is not in compliance with the allowable cost provisions of OMB Circular A-87.

Cause

Lack of a thorough understanding of the allowable costs charged to the Title II cluster of programs.

Recommendation

We recommend that responsible personnel conduct an internal audit of costs charged to this cluster of programs to ensure compliance with the provisions of OMB Circular A-87 cost principles.

District Response

When the responsible personnel establish the annual budget allocation for Title II funds the OMB circular A-87 will be consulted prior to allocating funds for specific expenditures. The District will also consult other online resources to ensure Federal Program compliance.

TRACY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

TRACY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Financial Statement Findings

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.