STOCKTON UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
June 30, 2016

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

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Crowe Horwath.

Crowe Horwath LLP
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INDEPENDENT AUDITOR'S REPORT

Board of Education
Stockton Unified School District
Stockton, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stockton Unified School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Stockton Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Stockton Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 17, the General Fund Budgetary Comparison Schedule, Schedule of Other Postemployment Benefits (OPEB) Funding Progress, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions on pages 67 to 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stockton Unified School District's basic financial statements. The accompanying schedule of expenditure of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of Stockton Unified School 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stockton Unified School District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2016

Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2016, is presented in this discussion and analysis of the District's financial position and performance.

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

Financial Highlights

- Total government-wide revenue for the 2016 fiscal year was $529.4 million. Expenditures totaled $464.6 million. The difference is an increase to the net position of the District of $64.8 million.
- Capital assets, net of depreciation, increased by $9.1 million. No major construction projects were completed during the fiscal year. Work continued on the modernization of Roosevelt Elementary School, construction of buildings within the Edison High School Master Plan, and roofing or paving projects under the Emergency Replacement Program (ERP).
- Long-term debt at June 30, 2016 totaled $806,368,460. During the 2015-16 year, $30.0 million of Election of 2012, Series B General Obligation Bonds were issued. In addition, $8.6 million in Election of 2014, Series A General Obligation Bonds were issued. Also during the year, $128.3 million in 2016 General Obligation Refunding Bonds were issued. The proceeds of these bonds were used to refund $146.3 million in General Obligation bonds issued in prior years. Scheduled payments on other General Obligation bonds reduced long-term debt by $10.7 million.

Overview of the Financial Statements

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

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

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

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

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

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

Major Features of the Government-wide and Fund Financial Statements

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

Government-wide Statements

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

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

In the government-wide financial statements, the District's activities are reported as Governmental activities. Most of the District's services are included here, such as regular and special education, transportation, and administration. Funding received from the State of California through the Local Control Funding Formula (LCFF), along with special funding received from the federal and state governments, finance most of these activities. The LCFF will be discussed more fully later in this report.

Fund Financial Statements

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

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

There are three types of funds that the District utilizes:

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

Financial Analysis of the District as a Whole

The computation of District net position at June 30, 2016 and 2015 is presented by category in the table below:

	Government-Wide Activities		Year Over
	2016	2015	Year Change
Assets:			
Cash	$ 322,449,075	$ 211,589,146	$ 110,859,929
Receivables	25,296,788	24,297,299	999,489
Prepaid expenses	1,165,774	1,272,008	(106,234)
Inventories	1,245,282	2,092,789	(847,507)
Non-depreciable capital assets	75,801,578	51,075,341	24,726,237
Capital assets, net of depreciation	499,379,128	514,976,152	(15,597,024)
Total assets	925,337,625	805,302,735	120,034,890
Deferred Outflows of Resources:			
Deferred outflows of resources - pensions	31,350,320	29,269,036	2,081,284
Deferred loss from Refunding of Debt	29,145,833	24,856,336	4,289,497
Total Deferred Outflow	60,496,153	54,125,372	6,370,781
Liabilities:			
Accounts payable	25,887,807	25,967,225	(79,418)
Other current liabilities	16,377,910	4,241,415	12,136,495
Long-term liabilities	823,521,460	738,610,123	84,911,337
Total liabilities	865,787,177	768,818,763	96,968,414
Deferred Inflows of Resources:			
Deferred inflows of resources - pensions	31,325,000	66,733,663	(35,408,663)
Net Position:			
Net investment in capital assets	238,883,531	194,954,925	43,928,606
Restricted	89,933,702	82,130,597	7,803,105
Unrestricted	(240,095,632)	(253,209,841)	13,114,209
Total Net Position	$ 88,721,601	$ 23,875,681	$ 64,845,920

Total assets and deferred outflows increased by a net $126.4 million during the 2016 fiscal year. Of this total, cash accounts increased by $110.9 million, receivables increased by $1.0 million, and other assets decreased by $1.0 million. Deferred outflows of resources increased by $6.4 million. Capital assets, net of depreciation, increased by a total of $9.1 million. Capital assets are discussed in more detail later in this Management Discussion and Analysis report.

Total liabilities and deferred inflows of resources increased by a net $61.6 million. Of this amount, unearned income increased by $11.5 million and long-term debt increased by $84.9 million. Deferred inflows decreased by $35.4 million. Long-term debt is discussed in detail in a later section of this report.

The net increase to assets of $126.4 million, reduced by the increase of $61.6 million to liabilities, results in an increase of $64.8 million to net position at June 30, 2016.

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

	Government-Wide Activities 2016	Government-Wide Activities 2015	Year Over Year Change
Revenues - Program:			
Charges for Services	$ 1,341,774	$ 1,352,323	$ (10,549)
Operating Grants and Contributions	122,003,424	114,001,623	8,001,801
Capital Grants and Contributions	8,300,130	-	8,300,130
Revenues - General:			
Unrestricted Federal and State Aid	314,010,609	265,293,172	48,717,437
Taxes Levied for General Purposes	44,661,926	33,643,375	11,018,551
Taxes Levied for Debt Service	31,799,811	25,456,293	6,343,518
Taxes Levied for Other Specific Purposes	1,328,058	1,053,672	274,386
Interest and Investment Earnings	677,895	426,860	251,035
Other General Revenues	5,321,768	3,994,556	1,327,212
Total revenues	529,445,395	445,221,874	84,223,521
Expenses:			
Instruction	264,095,414	247,509,825	16,585,589
Pupil and Instructional Services	106,447,502	93,597,718	12,849,784
General Administration	18,305,692	16,676,064	1,629,628
Plant Services	47,543,524	39,499,577	8,043,947
Ancillary Serv., Enterprise Activ., Other Outgo, and Interest on Long-term Liab.	28,207,343	20,091,214	8,116,129
Total Expenses	464,599,475	417,374,398	47,225,077
Increase in Net Position	64,845,920	27,847,476	36,998,444
Net Position, Beginning of the Year	23,875,681	281,455,849	(257,580,168)
Restatements for Effects of GASB 68	-	(285,427,644)	285,427,644
Net Position, Beg. of the Year, as Restated	23,875,681	(3,971,795)	27,847,476
Net Position, End of the Year	$ 88,721,601	$ 23,875,681	$ 64,845,920

For the 2015-16 fiscal year, total District revenues were $529.4 million. Total District expenses were $464.6 million. The difference, $64.8 million, is an increase to net position at June 30, 2016.

A main source of revenue for the District is the State Aid portion of the Local Control Funding Formula, which is included in the Unrestricted Federal and State Aid total. These funds are based on Average Daily Attendance (ADA), the fractional proportion of the number of days a student attends school to the number of days the student is enrolled. Supplemental and Concentration grants, based on the percentage of English learners, free and reduced meal eligible students, and foster students, are also available through the LCFF.

Enrollment in Grades K-12, not including the District's dependent charter schools, increased during the 2015-16 year when compared with the prior school year. Enrollment at the end of the second school month was 34,947 students, an increase of 112 students from the 2014-2015 year. When District charter school enrollment is included in the totals, enrollment increased by 141 students, indicating that District enrollment is growing, a positive trend from prior years where enrollment showed a steady decline.

This trend is also seen with Average Daily Attendance (ADA). For the 2015-16 year, the ADA for the Second Principal Apportionment (P-2) period totaled 32,766, an increase of 12 ADA from the prior fiscal year. It is anticipated that enrollment and ADA will continue to grow during the 2016-17 year.

Financial Analysis of the District's Funds

At June 30, 2016, the District had fourteen governmental funds reporting a combined fund balance of $287.8 million, an increase of $98.0 million over the prior year. Of these funds, ten had revenues which exceeded expenditures, contributing to the combined fund balance. The following table details the fund balances of the individual governmental funds.

Governmental Funds – Fund Balance

	Fund Balance – June 30, 2016	Fund Balance – June 30, 2015	Year Over Year Change
General Fund	$ 119,549,238	$ 79,580,837	$ 39,968,401
Charter Schools Special Revenue Fund	7,912,471	3,562,748	4,349,723
Adult Education Fund	1,480,124	736,797	743,327
Child Development Fund	418,196	232,778	185,418
Cafeteria Special Revenue Fund	10,302,689	10,989,813	(687,124)
Deferred Maintenance Fund	2,060,050	1,245,080	814,970
Building Fund	68,561,265	45,715,967	22,845,298
Capital Facilities Fund	2,308,823	3,098,002	(789,179)
County School Facilities Fund	60,605	26,991	33,614
Special Reserve for Capital Outlay Projects	39,513,911	17,507,167	22,006,744
Mello-Roos Fund	--	1,523	(1,523)
Bond Interest and Redemption Fund	25,441,897	17,439,662	8,002,235
Tax Override Fund	--	13,261	(13,261)
Debt Service Fund	10,215,657	9,655,316	560,341
Totals	$ 287,824,926	$ 189,805,942	$ 98,018,984

General Fund – Revenue and Expenditure Analysis

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2016, along with the increase or decrease from fiscal year 2015 and breakdowns by percentage. The table does not include Transfers In and Other Financing Sources.

	General Fund FY-2016 Actual	Percent Of Total	Increase (Decrease) from FY-2015	Percent Increase or (Decrease)
Revenues:				
LCFF Sources	$ 313,492,054	73.12%	$ 43,092,862	15.94%
Federal Revenue	39,085,796	9.12%	(2,812,541)	(6.71)%
Other State Revenue	68,095,365	15.88%	17,828,139	35.47%
Other Local Revenue	8,060,558	1.88%	(636,788)	(7.32)%
Total Revenues	$ 428,733,773	100.00%	$ 57,471,672	15.48%

Expenditures for the General Fund are reflected in the following table by major expenditure category. The table does not include Transfers Out and Other Financing Uses.

	General Fund			
	FY-2016 Actual	Percent Of Total	Increase (Decrease) from FY-2015	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	$ 159,126,802	42.67%	$ 5,220,534	3.39%
Classified Salaries	56,779,833	15.23%	6,185,279	12.23%
Employee Benefits	93,965,220	25.20%	6,726,417	7.71%
Books and Supplies	23,562,375	6.32%	11,158,433	89.96%
Services, Other Operating Expenses	39,007,327	10.46%	2,124,602	5.76%
Capital Outlay	414,882	0.11%	352,372	563.71%
Other Outgo/Dir. Supp./Indirect Costs	17,905	0.01%	(1,883,039)	(99.06)%
Total Expenditures	$ 372,874,344	100.00%	$ 29,884,598	8.71%

The District's financial condition continues to improve when compared to recent years. The improving national and state economies, enrollment and average daily attendance which are no longer declining and the state's LCFF funding model are all contributing to the District's stronger financial position. Stockton Unified is looking for the financial picture to continue to improve during the 2017 fiscal year. This is discussed more fully in the "Economic Factors and Next Year's Budgets and Rates" section found later in this document.

General Fund - Budgetary Highlights

The District's 2016 General Fund operating budget was adopted by the Governing Board in June of 2015. As adopted, budgeted revenues totaled $382.5 million and budgeted expenditures totaled $390.6 million. This resulted in a structural deficit of $8.1 million. District reserves of $68.1 million were able to absorb the budgeted deficit.

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

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

The tables on the following page display General Fund revenue and expenditures by major object categories with a comparison to the revised budget totals reflected in the 2015-16 Second Interim report.

	General Fund		
	FY-16 Actual Revenue	Board Approved Budget	Increase (Decrease)
Revenue:			
LCFF Sources	$ 313,492,054	$ 313,148,694	$ 343,360
Federal Revenue	39,085,796	59,950,097	(20,864,301)
Other State Revenue	68,095,365	66,407,888	1,687,477
Other Local Revenue	8,060,558	7,425,872	634,686
Transfers In/Other Sources	1,871,733	1,500,518	371,215
Total Revenue	$ 430,605,506	$ 448,433,069	$ (17,827,563)

	General Fund		
	FY-16 Actual Expenditures	Board Approved Budget	Increase (Decrease)
Expenditures:			
Certificated Salaries	$ 159,126,802	$ 170,040,066	$ (10,913,264)
Classified Salaries	56,779,833	60,399,875	(3,620,042)
Employee Benefits	93,965,220	103,023,631	(9,058,411)
Books and Supplies	23,562,375	53,179,868	(29,617,493)
Services and Other Operating Expenses	39,007,327	48,513,226	(9,505,899)
Capital Outlay	414,882	9,822,865	(9,407,983)
Other Outgo/ Direct Support	1,044,921	923,572	121,349
Transfers Out/Other Uses	16,735,745	16,000,000	735,745
Total Expenditures	$ 390,637,105	$ 461,903,103	$ (71,265,998)
Change in Net Ending Balance	$ 39,968,401	$ (13,470,034)	$ 53,438,435

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2016	2015
Land	$ 25,735,353	$ 25,735,353
Improvement of Sites	4,901,841	5,268,437
Buildings	490,899,557	505,324,822
Equipment	3,577,730	4,382,893
Construction in Progress	50,066,225	25,339,988
Totals	$ 575,180,706	$ 566,051,493

The table above reflects capital assets, net of depreciation, at June 30, 2016 and 2015. The District uses an asset capitalization threshold of $50,000. Depreciation on each capitalized asset has been calculated using the straight-line method over applicable useful lives. Depreciation expense on completed assets totaled $15.7 million for the 2015-16 fiscal year. The amount shown for Construction in Progress represents expenditures for projects currently in the construction phase. Depreciation is not taken on these assets until a project is completed.

Capital assets, net of depreciation, increased by $9.1 million during the year. This includes a $24.6 million increase to Construction in Progress. While no major construction projects were completed during the year, work continued on the modernization of Roosevelt Elementary School, construction of the Edison High School Master Plan, and several major roofing and parking lot repairs under the Emergency Replacement Program (ERP). At the end of the 2015-16 year, total funds expended on projects in the construction phase totaled $50.1 million.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2016	2015
General Obligation Bonds, including Premiums	$ 424,688,032	$ 390,707,875
Accreted Interest – 2008 Series D General Obligation Bonds	17,437,666	13,196,740
Certificates of Participation, including Premiums	34,359,875	35,400,971
Capitalized Lease Obligations	--	6,490
Qualified Zone Academic Bonds Payable	5,000,000	5,000,000
Redevelopment Agency Repayment	242,185	242,185
Postretirement Healthcare Benefits	27,622,462	25,149,397
Net Pension Liability	294,675,000	248,921,446
Compensated Absences	2,343,240	1,993,019
Totals	$ 806,368,460	$ 720,618,123

During the 2015-16 year, $30.0 million of Election of 2012, Series B General Obligation Bonds were issued. In addition, $8.6 million in Election of 2014, Series A General Obligation Bonds were issued. Also during the year, $128.3 million in 2016 General Obligation refunding Bonds were issued. A total of $26.0 million in bond premiums were associated with these three issuances. The proceeds of the refunding bonds were used to eliminate $146.3 million in debt from General Obligation bonds issued in prior years. Scheduled payments on other General Obligation bonds reduced long-term debt by $10.7 million. In addition, $1.0 million in scheduled payments for outstanding Certificates of Participation were made.

The following components of long-term debt increased during the fiscal year:

- Net pension liability by $45.8 million to $294.7 million at June 30, 2016;
- Postemployment benefits by $2.5 million, to $27.6 million, and;
- Accreted Interest on Election of 2008, Series D General Obligation Bonds increased by $4.2 million to a total of $17.4 million at year-end.

In addition to the debt reductions already listed, amortization on General Obligation bond premiums of $1.8 million took place during the fiscal year.

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

Economic Factors and Next Year's Budgets and Rates

The 2016-17 Stockton Unified School District budget has been developed with all components of the proposal presented by Governor Jerry Brown in January and any applicable May Revise and Adopted Budget adjustments. The District enters the 2016-17 fiscal year with an economy that continues its slow improvement and a commitment by state legislative leaders for increased education funding.

In January 2016, the Governor released his Proposed Budget with a positive outlook for education. This theme was enhanced with the May Revision, which acknowledged the continuing expansion of the state economy and a surge of revenue exceeding projections for the year.

The 2016-17 state education funding plan continues to center on the Local Control Funding Formula (LCFF). Base grants, allocated on grade spans for all students, and supplemental and concentration grants targeted to specific student groups, provide the main source of state revenue. Funding under LCFF is designed to allow more flexibility for school leaders to determine, with input from parents and other local stakeholders, how the state funding will be used to improve student achievement and better assure that a student will graduate from high school and be college and career ready.

Besides providing more local control and local accountability, the LCFF emphasizes equity and provides additional funding for targeted disadvantaged students: English learners, students eligible to receive a free or reduced-price meal, or foster youth. Districts with these student groups receive a supplemental grant equal to 20 percent of the base grant for each eligible student, and a concentration grant equal to 50 percent of the base grant for targeted students exceeding 55 percent of a school district's total student enrollment.

Included as part to the LCFF is a requirement for school districts to develop, adopt, and then update on an annual basis a three-year Local Control and Accountability Plan (LCAP) using a template adopted by the California Board of Education. The LCAP is required to identify annual goals, specific actions, and measure student progress across eight performance areas, including student academic achievement, school climate, student access to a broad curriculum, and parent engagement. Parent and public input is required in developing, revising, and updating the LCAP. The academic priorities of the LCAP must be aligned to the district's spending plan found in the annual budget. The District met with parents and the public, school personnel and bargaining units, and local civic leaders to develop the LCAP. After many meetings and several public hearings, the Governing Board adopted the District's LCAP in June of 2016.

It is important to note that the LCFF is proposed to be implemented over an eight-year period. Until full implementation is achieved in the 2020-21 fiscal year, school districts will receive roughly the same amount of funding they received in 2012-13, plus an additional amount each year to close the gap between current funding levels and the new LCFF target levels.

The annual state appropriation provided to increase LCFF funding is the sole determinant of changes in school district LCFF revenues. For 2016-17, funding for implementation of the LCFF totals $2.9 billion state-wide. The increased LCFF funding is estimated to reduce the gap between the 2013-14 funding level and the LCFF funding target for each school district by almost 96%.

The tables showing LCFF funding by grade span are displayed on the following page.

LCFF - Base Grant Entitlements – Target Funding

$2.9 billion is budgeted state-wide for continued implementation of the Local Control Funding Formula (LCFF). Each school district receives a base grant allocation calculated by grade span: K-3, 4-6, 7-8, and 9-12. No cost of living adjustment (COLA) is included in the calculation of the 2016-17 base grant amounts. The table below displays the base grant calculation by grade span.

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
2015-16 Base Grant per ADA	$ 7,083	$ 7,189	$ 7,403	$ 8,578
COLA @ 0.0%	$ -	$ -	$ -	$ -
2016-17 Base Grant per ADA	$ 7,083	$ 7,189	$ 7,403	$ 8,578

LCFF – K-3 CSR and CTE Adjustments – Target Funding

In addition to the base grant, school districts receive adjustments for class size reduction at grades K-3 (CSR) and Career-Technical Education (CTE). These adjustments are percentages of the base grant amounts, as shown in the following table.

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
2016-17 Base Grant per ADA	$ 7,083	$ 7,189	$ 7,403	$ 8,578
Adjustment Percentage	10.4% GSA	-	-	2.6% CTE
Adjustment Amount	$ 737	-	-	$ 223
Adjusted Grant per ADA	$ 7,820	$ 7,189	$ 7,403	$ 8,801

LCFF – Supplemental and Concentration Grants per ADA – Target Funding

Supplemental and concentration grant increases are calculated based on the percentage of total enrollment accounted for by English learners, free and reduced meal (FRPM) program eligible students, and foster youth.

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
Adjusted Grant per ADA	$ 7,820	$ 7,189	$ 7,403	$ 8,801
20% Supplemental Grant	$ 1,564	$ 1,438	$ 1,481	$ 1,760
50% Concentration Grant (for eligible students exceeding 55% of enrollment	$ 3,910	$ 3,595	$ 3,702	$ 4,401
Total Adjusted Target Funding Amount	$ 13,294	$ 12,222	$ 12,586	$ 14,962

The LCFF is now almost 96% fully funded. It may take several more years, however, to reach full funding. Cost of living adjustments are projected to be low (1% to 3%) over the next few years and the large Proposition 98 funding increases received by school districts over the last few years may be coming to an end. This increased funding came as a result of the State paying the Maintenance Factor withheld during the lean budget years. With the Maintenance Factor significantly paid back, school districts will see lower per year funding increases going forward.

Other Education Items Included in the State Budget

Other items included in the state budget for allocation state-wide include:

- $1.3 billion, approximately $214 per ADA, in one-time discretionary funds for educational purposes as determined by local Boards of Education.
- $218.8 million for the K-12 Mandate Block Grant.
- $200 million in one-time funds to increase college preparation and college-going rates for English learners, foster youth, and low-income students.
- $300 million to continue the Career Technical Education (CTE) Incentive Grant Program.

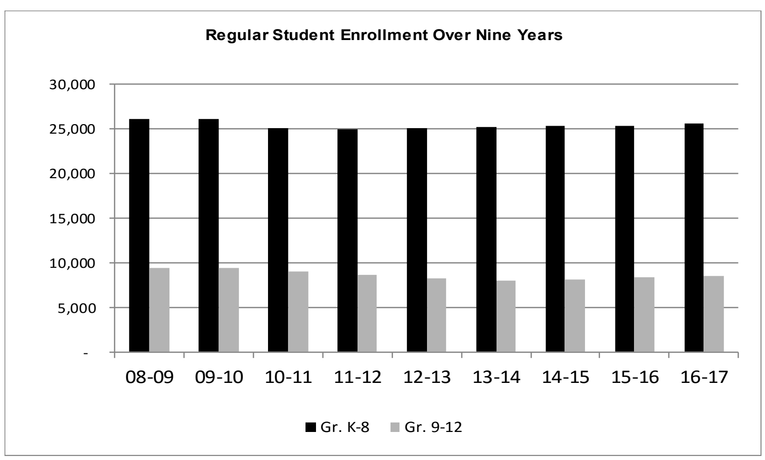
School District Reserve Levels not Considered in the State Budget

Not addressed in the budget is the state's cap on the level of reserves a school district can maintain when certain conditions exist. The Legislature did not act on Senate Bill 799, designed to correct the negative effects of the arbitrary restrictions placed upon the reserve levels. While it does not appear that legislative action will take place on this issue anytime soon, it is also not expected that the criteria triggering the restrictions will be met in the near term. Stockton Unified will continue to maintain a reserve level prudent with the economic and financial conditions that currently exist.

Critical assumptions used in preparing the District's 2016-17 General Fund budget are discussed below.

Student Enrollment and Enrollment Projections

One of the economic factors affecting the school District's future outlook and growth potential is enrollment. Enrollment represents the number of students registered to attend schools within the District's boundaries. Attendance represents those students actually coming to school each day, with revenue coming to the District based on the average daily attendance, or ADA. Additional revenue can be generated from average daily attendance when a greater number of students attend District schools. However, if enrollment is lower, the District receives less of this general purpose revenue. With the start of the 2016-17 school year, enrollment in District schools, including charter schools, is 37,593. This is an increase of 564 students over the prior year and 411 students higher than the projected enrollment of 37,182 students used for budget development.



The graph to the right provides an overview of the District's regular student enrollment over the past nine years.

In planning a viable budget, the preparation of accurate enrollment projections is critical. With student enrollment showing signs of growth, it becomes imperative to have accurate enrollment projections to staff for an adequate teacher corps, provide proper classroom facilities and order ample books and supplies to meet the needs of District students. Stockton Unified continues to be vigilant in monitoring and projecting student enrollment. Work continues to refine methods in projecting the expected enrollment to allow for better planning of the educational program and control over operational costs.

In summary, student enrollment is the lifeblood of the District. Stockton Unified continues to work to provide educational programs which stimulate student learning and allows the District to retain the current student population and attract additional students.

Salaries and Benefits

Salaries and benefits are subject to negotiations each year based on collective bargaining agreements. Most school districts negotiate based on "total compensation" which consists of salaries and benefits. Total compensation generally refers to increases in salaries and health benefits. The District anticipates that pressure to increase salary compensation and health benefits will continue over the next few years. Currently, the District allocates over 79% of the General Fund unrestricted expenditure budget toward salary and benefit related areas. The District controls salary costs in a number of ways, including the monitoring of authorized positions in the budget, issuing hiring freezes when necessary, and restricting the use of additional and overtime pay. The District will continue to use prudence in discussions with employee bargaining groups regarding the adjustment of employee salaries.

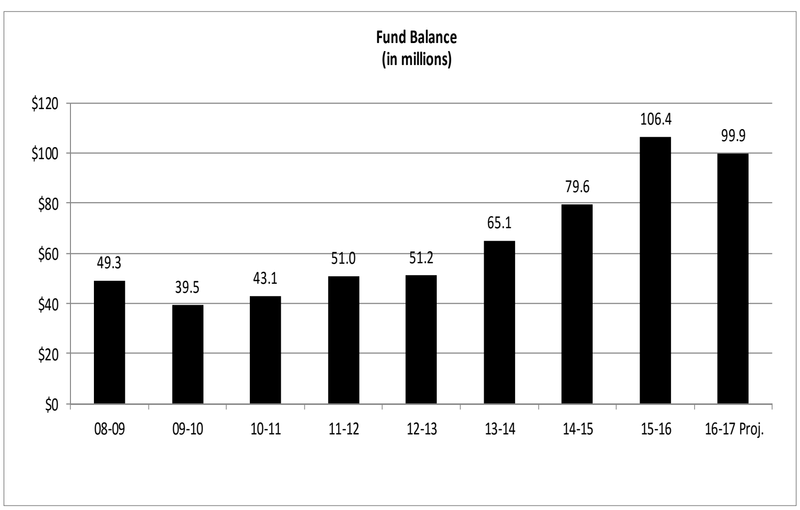
In addition, the District has to assume increases in expenses due to step and column changes. Stockton Unified is obligated to provide additional employee compensation for each bargaining unit contract which has additional experience (years worked) and/or additional education (post-secondary degree program) credits. The District is assuming a step and column cost increase for certificated staff of 1.263%. The assumed rate increase for classified staff for the 2016-17 year is 1.246%.

Health Rates

The cost of health care is expected to increase over the next few years. The District has established a health benefits allowance for 2016-17. The allowance results from collective bargaining contracts in which an expense cap does not exist and the District is obligated to absorb any cost increases. The District anticipates continued pressure to increase the health benefits allowance as costs continue to rise. The District is working with the employee bargaining groups to explore ways to maintain acceptable levels of employee health care at affordable costs.

Fund Balance

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



Additionally, a "Reserve for Economic Uncertainties" for unforeseen emergencies is required of districts by the State Department of Education. The reserve for this District is based on 2% of the total General Fund expenditures (approximately $8.5 million). Setting aside a state required reserve means that the District has fewer dollars available for operational areas. It also means that a reserve balance is available if the District must address an unplanned financial situation. It is not anticipated that the state's "cap" on the amount a school district can reserve will be triggered during the 2016-17 year.

The graph above shows the history of the District's General Fund balance, including the projected net ending fund balance for the 2016-17 year, which includes restricted balance estimates.

Conclusion
The District continues to face many challenges: the expected slowing of new state funding, negotiating salary compensation, increasing health care costs, maintaining a positive fund balance, and effectively managing cash balances. Proper planning and foresight will be required for the District to balance financial resources with educational goals and objectives. School site staff, central office employees, and District administration are up to meeting these challenges with the goal being an educational program that allows our students to gain the knowledge necessary to progress through life as informed and productive citizens.

Contacting the District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Ms. Lisa Grant-Dawson, Chief Business Official, Stockton Unified School District, 701 North Madison Street, Stockton, CA 95202.

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	$ 322,449,075
Receivables	25,296,788
Prepaid expenses	1,165,774
Stores inventory	1,245,282
Non-depreciable capital assets (Note 4)	75,801,578
Depreciable capital assets, net of accumulated depreciation (Note 4)	499,379,128
Total assets	925,337,625
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 8 and 9)	31,350,320
Deferred loss from refunding of debt	29,145,833
Total deferred outflows	60,496,153
LIABILITIES	
Accounts payable	25,887,807
Claims liability, current (Note 5)	2,675,000
Unearned revenue	13,702,910
Long-term liabilities:	
Claims liability, less current portion (Note 5)	17,153,000
Due within one year (Note 6)	16,828,171
Due after one year (Note 6)	789,540,289
Total liabilities	865,787,177
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 8 and 9)	31,325,000
NET POSITION	
Net investment in capital assets	238,883,531
Restricted:	
Legally restricted programs	33,500,210
Capital projects	11,597,247
Debt service	35,657,554
Self insurance	9,178,691
Unrestricted	(240,095,632)
Total net position	$ 88,721,601

See accompanying notes to financial statements.

	Program Revenues				Net (Expense) Revenue and Change in Net Position
	Expenses	Charges For Services	Operating Grants and Contri-butions	Capital Grants and Contri-butions	Governmental Activities
Governmental activities:					
Instruction	$ 264,095,414	$ 557,707	$ 72,545,866	$ 8,300,130	$ (182,691,711)
Instruction-related services:					
Supervision of instruction	30,141,309	12,070	13,554,678	-	(16,574,561)
Instructional library, media and technology	757,052	494	87,457	-	(669,101)
School site administration	25,212,941	113,560	1,636,865	-	(23,462,516)
Pupil services:					
Home-to-school transportation	10,898,189	3,198	58,806	-	(10,836,185)
Food services	17,811,369	268,822	17,287,780	-	(254,767)
All other pupil services	21,626,642	29,075	5,743,364	-	(15,854,203)
General administration:					
Data processing	6,087,580	9,895	87,117	-	(5,990,568)
All other general administration	12,218,112	44,634	2,612,831	-	(9,560,647)
Plant services	47,543,524	122,033	2,840,698	-	(44,580,793)
Ancillary services	1,156,345	-	88,261	-	(1,068,084)
Community services	50,127	-	-	-	(50,127)
Enterprise activities	3,300,945	-	-	-	(3,300,945)
Other outgo	3,825,612	180,286	5,459,701	-	1,814,375
Interest on long-term liabilities	19,874,314	-	-	-	(19,874,314)
Total governmental activities	$ 464,599,475	$ 1,341,774	$ 122,003,424	$ 8,300,130	(332,954,147)

General revenues:	
Taxes and subventions:	
Taxes levied for general purposes	44,661,926
Taxes levied for debt service	31,799,811
Taxes levied for other specific purposes	1,328,058
Federal and state aid not restricted to specific purposes	314,010,609
Interest and investment earnings	677,895
Interagency revenues	1,498,141
Miscellaneous	3,245,001
Special and extraordinary items	578,626
Total general revenues	397,800,067
Change in net position	64,845,920
Net position, July 1, 2015	23,875,681
Net position, June 30, 2016	$ 88,721,601

See accompanying notes to financial statements.

	General Fund (01)	Building Fund (21)	County School Facilities Fund (35)	Special Reserve for Capital Outlay Projects Fund (40)	All Non-Major Funds	Total Governmental Funds
ASSETS						
Cash and investments:						
Cash in County Treasury	$ 124,371,027	$ 70,700,922	$ 8,315,065	$ -	$ 45,681,872	$ 249,068,886
Cash in County Treasury restricted for capital projects	-	-	-	30,286,092	-	30,286,092
Cash on hand and in banks	-	-	-	-	11,358	11,358
Cash in revolving fund	63,912	-	-	-	3,602	67,514
Cash with Fiscal Agent	1,627,980	-	-	-	11,281,925	12,909,905
Receivables	21,342,078	105,638	12,051	18,689	3,643,480	25,121,936
Prepaid expenditures	1,127,237	-	-	-	33,365	1,160,602
Due from other funds	1,152,763	-	-	24,042,739	1,314,598	26,510,100
Stores inventory	791,587	-	-	-	453,695	1,245,282
Total assets	$ 150,476,584	$ 70,806,560	$ 8,327,116	$ 54,347,520	$ 62,423,895	$ 346,381,675
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 11,248,198	$ 2,241,548	$ -	$ 3,820,257	$ 1,031,106	$ 18,341,109
Unearned revenue	3,015,741	-	-	10,626,361	60,808	13,702,910
Due to other funds	16,663,407	3,747	8,266,511	386,991	1,192,074	26,512,730
Total liabilities	30,927,346	2,245,295	8,266,511	14,833,609	2,283,988	58,556,749
Fund balances:						
Nonspendable	1,982,736	-	-	-	490,662	2,473,398
Restricted	11,326,680	68,561,265	60,605	39,513,911	59,649,245	179,111,706
Assigned	94,138,009	-	-	-	-	94,138,009
Unassigned	12,101,813	-	-	-	-	12,101,813
Total fund balances	119,549,238	68,561,265	60,605	39,513,911	60,139,907	287,824,926
Total liabilities and fund balances	$ 150,476,584	$ 70,806,560	$ 8,327,116	$ 54,347,520	$ 62,423,895	$ 346,381,675

See accompanying notes to financial statements.

Total fund balances - Governmental Funds		$ 287,824,926
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $793,620,354 and the accumulated depreciation is $218,439,648 (Note 4).		575,180,706
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2016 consisted of (Note 6):		
General Obligation Bonds and premium	$ (424,688,032)	
Accreted Interest	(17,437,666)	
Certificates of Participation and premium	(34,359,875)	
Qualified Zone Academy Bonds	(5,000,000)	
Redevelopment Agency Repayment	(242,185)	
Net pension liability (Notes 8 and 9)	(294,675,000)	
Post-employment healthcare benefits	(27,622,462)	
Compensated absences	(2,343,240)	
		(806,368,460)
In the governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(6,265,415)
In governmental funds, deferred losses on refundings of debt are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding of the debt.		29,145,833
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 8 and 9).		
Deferred outflows of resources relating to pensions	$ 31,350,320	
Deferred inflows of resources relating to pensions	(31,325,000)	
		25,320

(Continued)

Internal service funds are used to conduct certain activities for which costs are charged to other funds. Assets and liabilities are reported within the governmental activities in the Statement of Net Position.	$ 9,178,691
Total net position - governmental activities	$ 88,721,601

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

	General Fund (01)	Building Fund (21)	County School Facilities Fund (35)	Special Reserve for Capital Outlay Projects Fund (40)	All Non-Major Funds	Total Governmental Funds
Revenues:						
Local Control Funding Formula (LCFF):						
State apportionment	$ 277,754,583	$ -	$ -	$ -	$ 20,476,512	$ 298,231,095
Local sources	35,737,471	-	-	-	-	35,737,471
Total LCFF	313,492,054	-	-	-	20,476,512	333,968,566
Federal sources	39,085,796	-	-	-	18,050,127	57,135,923
Other state sources	68,095,365	-	8,266,511	5,425,777	11,588,321	93,375,974
Other local sources	8,060,558	316,622	33,614	26,837	34,727,820	43,165,451
Total revenues	428,733,773	316,622	8,300,125	5,452,614	84,842,780	527,645,914
Expenditures:						
Current:						
Certificated salaries	159,126,802	-	-	-	10,777,215	169,904,017
Classified salaries	56,779,833	-	-	385,702	8,642,655	65,808,190
Employee benefits	93,965,220	-	-	155,872	8,692,110	102,813,202
Books and supplies	23,562,375	634,016	-	128,201	9,808,707	34,133,299
Contract services and operating expenditures	39,007,327	4,216,614	-	3,070,854	4,180,624	50,475,419
Other outgo	1,038,431	-	-	-	-	1,038,431
Capital outlay	414,882	13,004,774	-	3,321,133	1,988,213	18,729,002
Debt service:						
Principal retirement	6,490	-	-	-	11,785,000	11,791,490
Interest	-	-	-	-	15,885,442	15,885,442
Total expenditures	373,901,360	17,855,404	-	7,061,762	71,759,966	470,578,492
Excess (deficiency) of revenues over (under) expenditures	54,832,413	(17,538,782)	8,300,125	(1,609,148)	13,082,814	57,067,422
Other financing sources (uses):						
Transfers in	1,871,733	-	-	24,002,256	1,560,000	27,433,989
Transfers out	(16,735,745)	-	(8,266,511)	(386,364)	(2,045,369)	(27,433,989)
Proceeds from the sale of bonds	-	166,885,000	-	-	-	166,885,000
Premium from the sale of bonds	-	25,427,103	-	-	567,482	25,994,585
Payment to refunding escrow	-	(151,928,023)	-	-	-	(151,928,023)
Total other financing sources (uses)	(14,864,012)	40,384,080	(8,266,511)	23,615,892	82,113	192,879,585
Change in fund balances	39,968,401	22,845,298	33,614	22,006,744	13,164,927	98,018,984
Fund balances, July 1, 2015	79,580,837	45,715,967	26,991	17,507,167	46,974,980	189,805,942
Fund balances, June 30, 2016	$ 119,549,238	$ 68,561,265	$ 60,605	$ 39,513,911	$ 60,139,907	$ 287,824,926

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS - TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Net change in fund balances - Total Governmental Funds	$ 98,018,984
Amounts reported for governmental activities in the statement of activities are different because:	
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	24,869,612
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(15,740,399)
Issuance of long-term liabilities is an other financing source in the governmental funds, but increases the long-term liabilities in the statement of net position. Amounts recognized in government funds as proceeds from debt, net of issue premium or discount, were (Note 6):	(166,885,000)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	11,791,490
Payments made to the refunding escrow is an other financing use in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	146,305,000
Losses on refundings of debt are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding of the debt.	4,289,497
In governmental funds, debt issued at a premium is recognized as an other financing source. In the government-wide statements debt issued at a premium is amortized as interest over the life of the debt (Note 6).	(24,144,061)
Accreted interest is an expense that is not recorded in the governmental funds (Note 6).	(4,240,926)

(Continued)

In governmental funds, interest on long-term liabilities is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred.	$ (577,463)
In government funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs for prepaid insurance are amortized over the life of the debt.	(90,102)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost recovery basis. The change in net position for the Self-Insurance Fund was:	2,336,181
In government funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 6).	(2,473,065)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was (Notes 8 and 9):	(8,263,607)
In the statement of activities, expenditures related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	(350,221)
Change in net position of governmental activities	$ 64,845,920

See accompanying notes to financial statements.

ASSETS	
Cash and investments:	
Cash in County Treasury	$ 29,337,521
Cash with Fiscal Agent	767,270
Cash in Revolving Fund	529
Receivables	174,852
Due from other funds	2,630
Prepaid expenditures	5,172
Total current assets	30,287,974
LIABILITIES	
Accounts payable	1,281,283
Claims liability, current	2,675,000
Total current liabilities	3,956,283
Claims liability, less current portion	17,153,000
Total liabilities	21,109,283
NET POSITION	
Restricted for self-insurance	$ 9,178,691

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN
NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2016

Operating revenues:	
Self-insurance premiums	$ 17,853,072
Other local revenues	11,574
Total operating revenues	17,864,646
Operating expenses:	
Classified salaries	318,709
Employee benefits	141,509
Books and supplies	96,018
Contract services	15,122,212
Total operating expenses	15,678,448
Operating income	2,186,198
Non-operating income:	
Interest income	149,983
Change in net position	2,336,181
Total net position, July 1, 2015	6,842,510
Total net position, June 30, 2016	$ 9,178,691

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from self-insurance premiums	$ 17,853,072
Cash received from other local revenue	11,574
Cash paid for employee benefits	(6,152,046)
Cash paid for other expenses	(9,432,172)
Net cash provided by operating activities	2,280,428
Cash flows provided by investing activities:	
Interest income received	149,983
Increase in cash and investments	2,430,411
Cash and investments, July 1, 2015	27,674,909
Cash and investments, June 30, 2016	$ 30,105,320
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 2,186,198
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in:	
Receivables	(29,546)
Amount due from other funds	(2,951)
Increase in:	
Accounts payable and claims liability	126,727
Total adjustments	94,230
Net cash provided by operating activities	$ 2,280,428

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST AND AGENCY FUNDS
June 30, 2016

	Trust Fund Scholarship Trust	Agency Fund Student Body Funds
ASSETS		
Cash on hand and in banks (Note 2)	$ 791,254	$ 1,043,698
LIABILITIES		
Due to student groups	-	$ 1,043,698
NET POSITION		
Restricted for scholarships	$ 791,254	

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2016

	Scholarship Trust
Additions:	
Contributions	$ 58,877
Deductions:	
Contract services and operating expenditures	71,669
Change in net position	(12,792)
Net position, July 1, 2015	804,046
Net position, June 30, 2016	$ 791,254

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stockton Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

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

The District, Stockton Unified School District Community Facilities District No. 1 (the "CFD") and Stockton Unified School District Financing Corporation (the "Corporation") have a financial and operational relationship which meet the reporting entity definition criteria of the *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100*, for inclusion of the CFD and the Corporation as component units of the District. Therefore, the financial activities of the CFD and the Corporation have been included in the basic financial statements of the District as a Blended Component Unit.

The following are those aspects of the relationship between the District, the CFD and the Corporation which satisfy *Codification of Governmental Accounting and Financial Reporting Standards, Section 2100* criteria:

A - Manifestations of Oversight

1. The CFD's and Corporation's Board of Directors were appointed by the District's Board of Education.

2. The Corporation has no employees. The District's Superintendent and Chief Business Official function as agents of the Corporation. Neither individual received additional compensation for work performed in this capacity.

3. The District exercises significant influence over operations of the CFD and the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the CFD and the Corporation.

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the CFD and the Corporation must have the consent of the District.

2. Any deficits incurred by the CFD and the Corporation will be reflected in the lease payments of the District. Any surpluses of the CFD and the Corporation revert to the District at the end of the lease period.

3. It is anticipated that the District's lease payments will be the sole revenue source of the CFD and the Corporation.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the CFD and the Corporation.

C - Scope of Public Service and Financial Presentation

1. The CFD and the Corporation were created for the sole purpose of financially assisting the District.

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

3. The CFD's financial activity is presented in the financial statements as the Mello-Roos Fund. The Corporation's financial activity is presented in the financial statements as the Capital Facilities Fund.

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

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position and the Statement of Change in Fiduciary Net Position at the fund financial statement level.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

A - Major Funds

General Fund (01):

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

Building Fund (21):

The Building Fund is a capital project fund used to account for resources used for the acquisition or construction of capital facilities by the District.

County School Facilities Fund (35):

The County School Facilities Fund is a capital project fund used to account for resources used for the acquisition or construction of capital facilities by the District.

Special Reserve for Capital Outlay Projects Fund (40):

The Special Reserve for Capital Outlay Projects Fund is a capital project fund used to account for resources used for the acquisition or construction of capital facilities by the District.

B - Other Funds

Special Revenue Funds:

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

Capital Projects Funds:

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

Debt Service Funds:

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Self-Insurance Fund:

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

Scholarship Trust Fund:

The Scholarship Trust Fund is used to account for assets held by the District as Trustee.

Student Body Funds:

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

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

<u>Accrual</u>: Governmental activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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

<u>Budgets and Budgetary Accounting</u>: By state law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

<u>Receivables</u>: Receivables are made up principally of amounts due from the State of California and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2016.

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

<u>Capital Assets</u>: Capital assets purchased or acquired, with an original cost of $50,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 50 years depending on asset types.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding reported, which is in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt. Amortization for the year ended June 30, 2016 totaled $1,026,780. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the pension liability reported in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled $2,938,000.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled $13,684,579.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The following is a summary of pension amounts in the aggregate:

	STRP	PERF B	Total
Deferred outflows of resources	$ 17,509,201	$ 13,841,119	$ 31,350,320
Deferred inflows of resources	$ 23,824,000	$ 7,501,000	$ 31,325,000
Net pension liability	$215,767,000	$ 78,908,000	$294,675,000
Pension expense	$ 27,847,462	$ 13,399,799	$ 41,247,261

Compensated Absences: Compensated absences totaling $2,343,240 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as a operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRP and PERF B employees, when the employee retires.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position: Net position is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted to specific program expenditures. The restriction for debt service represents the portion of net position available for the retirement of debt. The restriction for capital projects represents the portion of net position restricted for capital projects. The restriction for self-insurance represents the portion of net position restricted for payment of the the contract services related to claims. The restriction for scholarships represents the portion of net position restricted for student scholarships. It is the District's policy to use restricted net position first when allowable expenditures are incurred.

3. Unrestricted Net Position – All other net position that do not meet the definitions of "restricted" or "net investment in capital assets".

Fund Balance Classifications: Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2016, the District had no committed fund balances.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances. At June 30, 2016, the Board of Education has designated the Chief Business Official with the authority to assign fund balances.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

<u>Fund Balance Policy</u>: The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2016, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

<u>Encumbrances</u>: Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. All encumbrances are liquidated as of June 30.

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

<u>Estimates</u>: The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

(Continued)

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2016 are reported at fair value and consisted of the following:

	Governmental Activities			
	Governmental Funds	Proprietary Fund	Total	Fiduciary Activities
Pooled Funds:				
Cash in County Treasury	$249,068,886	$ 29,337,521	$278,406,407	$ -
Cash in County Treasury - restricted for capital projects	30,286,092	-	30,286,092	-
Total pooled funds	279,354,978	29,337,521	308,692,499	-
Deposits:				
Cash on hand and in banks	11,358	-	11,358	1,834,952
Cash in revolving fund	67,514	529	68,043	-
Total deposits	78,872	529	79,401	1,834,952
Investments:				
Cash with Fiscal Agent	12,909,905	767,270	13,677,175	-
Total cash and investments	$292,343,755	$ 30,105,320	$322,449,075	$ 1,834,952

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Joaquin County Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value 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.

Deposits - Custodial Credit Risk - Deposits: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2016, the carrying amount of the District's accounts was $1,914,353 and the bank balance was $2,057,726. The total uninsured bank balance at June 30, 2016 was $1,807,726.

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

The Cash with Fiscal Agent in the Proprietary Fund represents cash segregated for the future payment of self-insured benefits. These amounts are held by a third party custodian in the District's name as cash held in banks.

(Continued)

NOTE 2 - CASH AND INVESTMENTS (Continued)

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the District had no significant interest rate risk related to cash and investments held.

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

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the District had no concentration of credit risk.

NOTE 3 - INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables: Individual interfund receivable and payable balances at June 30, 2016 were as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
General	$ 1,152,763	$ 16,663,407
Building	-	3,747
County Schools Facilities	-	8,266,511
Special Reserve for Capital Outlay Projects	24,042,739	386,991
Non-Major Funds:		
Charter School	151,205	6,798
Adult Education	90	145,629
Child Development	77,913	197,844
Cafeteria	85,390	804,063
Deferred Maintenance	-	72
Capital Facilities	1,000,000	37,642
Mello-Roos	-	2
Tax Override	-	24
Proprietary Fund:		
Self-Insurance	2,630	-
Totals	$ 26,512,730	$ 26,512,730

NOTE 3 - INTERFUND TRANSACTIONS (Continued)

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

Transfers for the 2015-2016 fiscal year were as follows:

Transfer from the General Fund to the Special Reserve for Capital Outlay Projects Fund for school facilities administrative projects.	$ 15,735,745
Transfer from the General Fund to the Capital Facilities Fund to pay 2007 COPS.	1,000,000
Transfer from the Charter School to the General Fund for loan repayment.	450,000
Transfer from the Adult Education Fund to the General Fund for indirect costs.	97,436
Transfer from the Child Development Fund to the General Fund for indirect costs.	196,051
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	727,039
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Projects Fund for school facilities administrative projects.	8,266,511
Transfer from the Special Reserve for Capital Outlay Projects Fund to the General Fund for the Franklin HS project (ERP #48, 49 and 50).	386,364
Transfer from the Mello-Roos Fund to the General Fund to close out the Mello-Roos Fund.	1,529
Transfer from the the Bond Interest and Redemption Fund to the Debt Service Fund related to sinking fund deposit for GO Bonds Election of 2008, Series C.	560,000
Transfer from the Tax Override Fund to the General Fund to close out the Tax Override Fund.	13,314
	$ 27,433,989

(Continued)

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2016 is shown below:

Governmental Activities	Balance July 1, 2015	Additions	Transfers and Deductions	Balance June 30, 2016
Non-depreciable:				
Land	$ 25,735,353	$ -	$ -	$ 25,735,353
Work-in-process	25,339,988	24,621,697	104,540	50,066,225
Depreciable:				
Buildings	688,566,980	-	(104,540)	688,462,440
Site improvements	9,754,671	-	-	9,754,671
Equipment	19,353,750	247,915	-	19,601,665
Totals, at cost	768,750,742	24,869,612	-	793,620,354
Less accumulated depreciation:				
Buildings	(183,242,158)	(14,320,725)	-	(197,562,883)
Site improvements	(4,486,234)	(366,596)	-	(4,852,830)
Equipment	(14,970,857)	(1,053,078)	-	(16,023,935)
Total accumulated depreciation	(202,699,249)	(15,740,399)	-	(218,439,648)
Capital assets, net	$ 566,051,493	$ 9,129,213	$ -	$ 575,180,706

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 14,701,633
Home-to-School Transportation	826,166
Food Services	53,081
All Other General Administration	81,609
Centralized Data Processing	25,775
Plant services	52,135
Total depreciation expense	$ 15,740,399

At June 30, 2016, the District had capital assets acquired from capital leases with an original cost of $105,824. The accumulated depreciation was $14,110 on these assets.

(Continued)

NOTE 5 - RISK MANAGEMENT/CLAIMS LIABILITIES

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

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

District management recomputes the liability annually using available updated claims data. Every three years, the District contracts with an actuary who performs an actuarial study using a variety of statistical techniques to produce current estimates that consider claim frequency and other economic factors. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The liability for workers compensation is based on an actuarial study dated June 30, 2015.

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

	June 30, 2015	June 30, 2016
Unpaid claim and claim adjustment expenses, beginning of year	$ 17,736,000	$ 19,992,000
Total incurred claims and claim adjustment expenses	5,451,200	2,604,404
Total payments	(3,195,200)	(2,768,404)
Total unpaid claims and claim adjustment expenses at end of year	$ 19,992,000	$ 19,828,000

(Continued)

NOTE 6 - LONG-TERM LIABILITIES

General Obligation Bonds

Series 2007:

On July 12, 2007, the District issued General Obligation Bonds, Series 2007, totaling $60,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through 2018 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 2,080,000	$ 2,288,300	$ 4,368,300
2018	2,150,000	2,179,863	4,329,863
	$ 4,230,000	$ 4,468,163	$ 8,698,163

2008 Series A:

On May 6, 2008, the District issued 2008 General Obligation Bonds, Series A, totaling $65,000,000. The bonds bear interest at rates ranging from 4.00% to 5.00% and are scheduled to mature through 2017 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 2,300,000	$ 2,341,175	$ 4,641,175

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2008 Series B:

On December 17, 2009, the District issued 2008 General Obligation Bonds, Series B, Qualified School Construction Bonds, totaling $16,040,000. The bonds bear coupon rate of 2.19% and are scheduled to mature through 2026 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ -	$ 351,276	$ 351,276
2018	-	351,276	351,276
2019	-	351,276	351,276
2020	-	351,276	351,276
2021	-	351,276	351,276
2022-2026	16,040,000	1,405,104	17,445,104
	$ 16,040,000	$ 3,161,484	$ 19,201,484

2008 Series C:

On July 22, 2010, the District issued 2008 General Obligation Bonds, Series C, Qualified School Construction Bonds, totaling $14,930,000. The bonds bear coupon rates from 5.170% to 7.080% and are scheduled to mature through 2028 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 1,830,000	$ 914,037	$ 2,744,037
2018	855,000	843,197	1,698,197
2019	960,000	791,920	1,751,920
2020	1,190,000	728,595	1,918,595
2021	1,195,000	656,088	1,851,088
2022-2026	6,245,000	2,049,466	8,294,466
2027-2028	2,655,000	188,859	2,843,859
	$ 14,930,000	$ 6,172,162	$ 21,102,162

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2008 Series D:

On August 2014, this Series was partially refunded by 2014A and 2014B Refunding Bonds. The Bonds are issued as capital appreciation bonds and capital appreciation bonds that convert to current interest bonds. Interest on the Capital Appreciation Bonds will be compounded on August 1, 2011 and each February 1 and August 1 thereafter to maturity. The bonds bear coupon rates from 5.890% to 7.720% and are scheduled to mature through 2051 as follows:

Year Ended June 30,	Principal	Interest	Total
2022-2026	$ 2,267,705	$ 2,887,295	$ 5,155,000
2027-2031	3,769,289	26,317,356	30,086,645
2032-2036	6,266,517	52,460,834	58,727,351
2037-2041	4,958,151	55,574,199	60,532,350
2042-2046	4,373,454	66,478,896	70,852,350
2047-2051	21,987,247	68,086,959	90,074,206
	$ 43,622,363	$ 271,805,539	$ 315,427,902

2011 Refunding Bonds:

On May 2011, the District issued 2011 General Obligation Refunding Bonds totaling $14,175,000. The Refunding Bonds were issued to provide funds to refund all or part of the Series 2001 and 2003 General Obligation Bonds and to pay cost of issuance of the Refunding Bond. The bonds bear coupon rates from 2.00% to 5.00% and are scheduled to mature through 2021 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 2,125,000	$ 440,650	$ 2,565,650
2018	2,205,000	355,650	2,560,650
2019	2,280,000	267,450	2,547,450
2020	2,360,000	176,250	2,536,250
2021	1,165,000	58,250	1,223,250
	$ 10,135,000	$ 1,298,250	$ 11,433,250

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2012 Refunding Bonds:

On October 16, 2012, the District issued 2012 General Obligation Refunding Bonds totaling $43,570,000. The Refunding Bonds were issued to provide funds to refund all or part of the Series 2001, 2003 and 2004 General Obligation Bonds and to pay cost of issuance of the Refunding Bond. The bonds bear coupon rates from 3.00% to 5.00% and are scheduled to mature through 2029 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 1,000,000	$ 1,751,500	$ 2,751,500
2018	1,035,000	1,711,500	2,746,500
2019	1,090,000	1,659,750	2,749,750
2020	1,140,000	1,605,250	2,745,250
2021	2,405,000	1,548,250	3,953,250
2022-2026	20,215,000	5,217,500	25,432,500
2027-2029	8,345,000	719,750	9,064,750
	$ 35,230,000	$ 14,213,500	$ 49,443,500

2012 Reauthorization, Series A:

On February 19, 2014, the District issued 2012 General Obligation Reauthorization Bonds, Series A, totaling $65,000,000. The bonds bear interest at rates ranging from 3.00% to 5.00% and are scheduled to mature through 2043 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ -	$ 2,794,131	$ 2,794,131
2018	-	2,794,131	2,794,131
2019	-	2,794,131	2,794,131
2020	-	2,794,131	2,794,131
2021	260,000	2,787,631	3,047,631
2022-2026	3,300,000	13,565,656	16,865,656
2027-2031	7,695,000	12,258,256	19,953,256
2032-2036	13,585,000	10,025,234	23,610,234
2037-2041	22,035,000	5,820,063	27,855,063
2042-2043	11,910,000	594,138	12,504,138
	$ 58,785,000	$ 56,227,502	$ 115,012,502

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2014A Refunding Bonds:

On August 27, 2014, the District issued 2014A General Obligation Refunding Bonds totaling $35,620,000. The Refunding Bonds were issued to provide funds to refund part of the Series 2008 D General Obligation Bonds and to pay cost of issuance of the Refunding Bond. The bonds bear coupon rates from 4.00% to 5.00% and are scheduled to mature through 2040 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ -	$ 1,594,275	$ 1,594,275
2018	-	1,594,275	1,594,275
2019	-	1,594,275	1,594,275
2020	-	1,594,275	1,594,275
2021	510,000	1,584,075	2,094,075
2022-2026	3,945,000	7,477,500	11,422,500
2027-2031	7,030,000	6,140,875	13,170,875
2032-2036	11,315,000	3,891,719	15,206,719
2037-2040	12,820,000	1,067,006	13,887,006
	$ 35,620,000	$ 26,538,275	$ 62,158,275

2014B Refunding Bonds:

On August 27, 2014, the District issued 2014B General Obligation Refunding Bonds totaling $1,485,000. The Refunding Bonds were issued to provide funds to refund part of the Series 2008 D General Obligation Bonds and to pay cost of issuance of the Refunding Bond. The bonds bear coupon rates from 1.35% to 2.33% and are scheduled to mature through 2020 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ -	$ 28,737	$ 28,737
2018	355,000	26,340	381,340
2019	530,000	18,962	548,962
2020	600,000	6,990	606,990
	$ 1,485,000	$ 81,029	$ 1,566,029

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Election 2012, Series B

On December 1, 2015, the District issued General Obligation Bonds, Series 2012 B, totaling $30,000,000. The bonds bear interest at rates ranging from 3.00% to 5.00% and are scheduled to mature through 2041 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 2,455,000	$ 740,110	$ 3,195,110
2018	2,630,000	1,066,713	3,696,713
2019	440,000	935,213	1,375,213
2020	575,000	913,212	1,488,212
2021	460,000	884,462	1,344,462
2022-2026	3,155,000	4,019,062	7,174,062
2027-2031	4,710,000	3,139,963	7,849,963
2032-2036	6,655,000	2,245,600	8,900,600
2037-2041	8,920,000	970,375	9,890,375
	$ 30,000,000	$ 14,914,710	$ 44,914,710

Election 2014, Series A (Ed-Tech Bonds)

On December 1, 2015, the District issued General Obligation Bonds, Series A (Ed-Tech Bonds), totaling $8,600,000. The bonds bear interest at rate of 5.00% and are scheduled to mature through 2019 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 2,170,000	$ 375,750	$ 2,545,750
2018	3,170,000	242,250	3,412,250
2019	3,260,000	81,500	3,341,500
	$ 8,600,000	$ 699,500	$ 9,299,500

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2016 Refunding Bonds

On January 14, 2016, the District issued 2016 General Obligation Refunding Bonds totaling $128,285,000. The Refunding Bonds were issued to provide funds to refund all or part of outstanding Series 2006, Series 2005, 2007, and 2008 A General Obligation Bonds and to pay cost of issuance of the Refunding Bond. The bonds bear coupon rates from 2.00% to 5.00% and are scheduled to mature through 2033 as follows:

Year Ended June 30,	Principal	Interest	Total
2017	$ 310,000	$ 6,140,686	$ 6,450,686
2018	2,935,000	6,110,675	9,045,675
2019	5,205,000	5,962,550	11,167,550
2020	5,550,000	5,747,450	11,297,450
2021	5,805,000	5,491,325	11,296,325
2022-2026	36,060,000	22,465,000	58,525,000
2027-2031	49,410,000	11,851,750	61,261,750
2032-2033	23,010,000	653,050	23,663,050
	$ 128,285,000	$ 64,422,486	$ 192,707,486

At June 30, 2016, $146,305,000 of bonds outstanding are considered defeased.

Although the advance refundings resulted in the recognition of an accounting loss of $5,316,277 for the year ended June 30, 2016, the District in effect decreased its aggregate debt service payments by $22,196,693 over the next 16 years and obtained an economic gain of $19,331,614.

Calculation of Difference in Cash Flow Requirements and Economic Gain

Old debt service cash flows	$ 214,904,179
New debt service cash flows	192,707,486
Total cash flow difference	$ 22,196,693

Economic Gain: The economic gain or difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid is $19,331,614.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Certificates of Participation (COPs): In February 2007, the District issued Certificates of Participation in the amount of $45,050,000 with interest rates from 4.00% to 5.00%, maturing on February 1, 2036. The proceeds of 2007 Certificates were used to provide funds to refund and defease the 1997 Certificates for the amount of $13,186,141 and to establish the 2004 Escrow Fund of $17,372,438 to secure the interest payments of 2007 Certificates and for the redemption of 2004 Certificates on February 1, 2013. The remaining proceeds of $15,000,000 were allocated to capital projects.

Scheduled payments for the COPs are as follows:

Year Ending June 30,	COPs Payments
2017	$ 2,618,890
2018	2,619,640
2019	2,622,640
2020	2,622,640
2021	2,619,640
2022-2026	13,090,194
2027-2031	13,096,750
2032-2036	13,092,500
Total payments	52,382,894
Less amount representing interest	(18,142,894)
Net present value of minimum payments	$ 34,240,000

Qualified Zone Academy Bonds: On November 24, 2003, the District issued $5,000,000 in Qualified Zone Academy Bonds and entered into a purchase contract in the amount of $5,000,000 with Bank of the West, whereby the Bank agreed to finance the acquisition of certain improvements to the District's Stockton Center, Stagg, Edison and Franklin High Schools to modernize the business and automotive programs and sell the improvements to the District upon specified terms and conditions. Under the terms of the contract, the District has deposited $2,729,105 with the Bank as collateral for the bonds, which the Bank will hold for the account of the District in the form of a certificate of deposit bearing interest at 4.119 percent per annum, compounded monthly, and payable on November 24, 2018. The certificate of deposit together with the interest earnings will be sufficient to repay the Bonds which mature on November 24, 2018.

Redevelopment Agency Repayment: Starting in 2012, the District is required to pay annual installments to the State of California. These payments are to return funds to the State of California related to excess apportionment received by the District in prior years.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Scheduled payments are as follows:

Year Ending June 30,	
2017	$ 248,240
Less amount representing interest	(6,055)
Net present value of minimum payments	$ 242,185

Post-Employment Healthcare Benefits: In addition to the pension benefits described in Notes 8 and 9, the District provides a single-employer defined benefit healthcare plan to all employees who retire from the District on or after attaining age 55 with at least 10 years of service, in accordance with contracts between the District and employee groups. As of June 30, 2016, 666 retirees met these eligibility requirements. Benefits are provided for retirees age 55 to 65. The District pays up to $1,095 per month for health benefits of retirees on a pay-as-you-go basis. The plan does not issue separate financial statements.

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 Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 7,835,569
Interest on net OPEB obligation	1,131,723
Adjustment to annual required contribution	(1,232,397)
Annual OPEB cost (expense)	7,734,895
Contributions made	(5,261,830)
Increase in net OPEB obligation	2,473,065
Net OPEB obligation - beginning of year	25,149,397
Net OPEB obligation - end of year	$ 27,622,462

See also the Required Supplementary Information.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2016 and preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 7,135,041	77.0%	$ 22,846,520
June 30, 2015	$ 7,130,674	67.7%	$ 25,149,397
June 30, 2016	$ 7,734,895	68.0%	$ 27,622,462

As of December 1, 2015 the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $93.7 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $93.7 million. The covered payroll (annual payroll of active employees covered by the Plan) was $203 million, and the ratio of the UAAL to the covered payroll was 46 percent.

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

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

In the December 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 2.75 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016, was 26 years.

See required supplementary information following the notes to the basic financial statements, which presents multi-year trend information on whether assets are increasing or decreasing over time relative to the plan liabilities.

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2016 is shown below:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	$ 379,432,363	$ 166,885,000	$ 157,055,000	$ 389,262,363	$ 14,270,000
General Obligation Bonds Premium	11,275,512	25,994,585	1,844,428	35,425,669	1,224,890
Accreted interest	13,196,740	4,240,926	-	17,437,666	-
Certificates of Participation	35,275,000	-	1,035,000	34,240,000	1,085,000
Certificates of Participation Premium	125,971	-	6,096	119,875	6,096
Capitalized lease obligations	6,490	-	6,490	-	-
Qualified Zone Academy Bonds	5,000,000	-	-	5,000,000	-
Redevelopment Agency Repayment	242,185	-	-	242,185	242,185
Net pension liability (Notes 8 and 9)	248,921,446	45,753,554	-	294,675,000	-
Post-employment healthcare benefits	25,149,397	7,734,895	5,261,830	27,622,462	-
Compensated absences	1,993,019	350,221	-	2,343,240	-
	$ 720,618,123	$ 250,959,181	$ 165,208,844	$ 806,368,460	$ 16,828,171

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the Capital Facilities Fund. Payments on the capitalized lease obligations are made from the General Fund. Payments on the Qualified Zone Academy Bonds are made from the Debt Service Fund. Payments on the Redevelopment Agency Repayment are made from the General Fund. Payments on post-employment benefits, net pension liability and compensated absences are made from the fund for which the related employee worked.

(Continued)

NOTE 7 - FUND BALANCE

Fund balances, by category, at June 30, 2016 consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Non-Major Funds	Total
Nonspendable:						
Revolving cash fund	$ 63,912	$ -	$ -	$ -	$ 3,602	$ 67,514
Prepaid expenditures	1,127,237	-	-	-	33,365	1,160,602
Stores inventory	791,587	-	-	-	453,695	1,245,282
Subtotal nonspendable	1,982,736	-	-	-	490,662	2,473,398
Restricted:						
Legally restricted programs	11,326,680	-	-	-	21,682,868	33,009,548
Capital projects	-	68,561,265	60,605	39,513,911	2,308,823	110,444,604
Debt service	-	-	-	-	35,657,554	35,657,554
Subtotal restricted	11,326,680	68,561,265	60,605	39,513,911	59,649,245	179,111,706
Assigned:						
Economic forecast	45,332,733	-	-	-	-	45,332,733
One month payroll	26,468,546	-	-	-	-	26,468,546
One time - mandated costs	17,309,702	-	-	-	-	17,309,702
One time - lottery	5,027,028	-	-	-	-	5,027,028
Subtotal assigned	94,138,009	-	-	-	-	94,138,009
Unassigned:						
Designated for economic uncertainty	7,792,332	-	-	-	-	7,792,332
Unassigned	4,309,481	-	-	-	-	4,309,481
Subtotal unassigned	12,101,813	-	-	-	-	12,101,813
Total fund balances	$ 119,549,238	$ 68,561,265	$ 60,605	$ 39,513,911	$ 60,139,907	$ 287,824,926

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at http://www.calstrs.com/comprehensive-annual-financial-report.

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
- CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

CalSTRS 2% at 60

CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

CalSTRS 2% at 62

CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members - Under CalSTRS 2% at 60, the member contribution rate was 9.20 percent of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.56 percent of applicable member earnings for fiscal year 2015-16.

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

Employers – 10.73 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

Effective Date	Prior Rate	Increase	Total
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed $17,509,201 to the plan for the fiscal year ended June 30, 2016.

State - 7.391 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed $200.7 million of the $267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of $66.9 million was included in an increased first quarter payment of $94 million for the 2014-15 fiscal year, which was transferred on July 1, 2014.

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2014-15 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

(Continued)

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

The CalSTRS state contribution rates effective for fiscal year 2015-16 and beyond are summarized in the table below:

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding	Total State Appropriation to DB Program
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.517%*

* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	$ 215,767,000
State's proportionate share of the net pension liability associated with the District	114,117,000
Total	$ 329,884,000

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school districts and the State. At June 30, 2015, the District's proportion was 0.320 percent, which was a decrease of 0.005 percent from its proportion measured as of June 30, 2014.

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

For the year ended June 30, 2016, the District recognized pension expense of $27,847,462 and revenue of $11,518,059 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 3,606,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	17,589,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	2,629,000
Contributions made subsequent to measurement date	17,509,201	-
Total	$ 17,509,201	$ 23,824,000

$17,509,201 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2017	$ (8,318,767)
2018	$ (8,318,767)
2019	$ (8,318,766)
2020	$ 3,210,633
2021	$ (1,039,167)
2022	$ (1,039,166)

Differences between expected and actual experience and changes in proportion are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2013
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. Based on the model from CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation by PCA is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	4.50%
Private Equity	12	6.20
Real Estate	15	4.35
Inflation Sensitive	5	3.20
Fixed Income	20	0.20
Cash / Liquidity	1	0.00

* 10-year geometric average

NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	$325,791,000	$215,767,000	$124,328,000

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B

General Information about the Public Employer's Retirement Fund B

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer's Retirement Fund B (PERF B) is administered by the California Public Employees' Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at https://www.calpers.ca.gov/docs/forms-publications/cafr-2015.pdf.

Benefits Provided: The benefits for the defined benefit plans are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service.

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to $863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2016 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2015-16.

Employers - The employer contribution rate was 11.847 percent of applicable member earnings.

The District contributed $7,013,119 to the plan for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability of $78,908,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school districts. At June 30, 2015, the District's proportion was 0.493 percent, which was a decrease of 0.010 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $13,399,799. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,070,000	$ -
Changes of assumptions	-	4,829,000
Net differences between projected and actual earnings on investments	-	2,672,000
Changes in proportion and differences between District contributions and proportionate share of contributions	2,758,000	-
Contributions made subsequent to measurement date	7,013,119	-
Total	$ 13,841,119	$ 7,501,000

(Continued)

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

$7,013,119 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,		
2017	$	(231,500)
2018	$	(231,500)
2019	$	(231,500)
2020	$	21,500

Differences between expected and actual experience, changes in assumptions and changes in proportion and differences between District contributions and proportionate share of contributions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

(Continued)

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Long-Term* Assumed Asset Allocation	Expected Real Rate of Return
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS' website.

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

(Continued)

NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 128,276,000	$ 78,908,000	$ 37,899,000

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 10 – JOINT POWERS AGREEMENTS

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

Northern California Regional Liability Excess Fund: The District is a member with other districts in San Joaquin County and the San Joaquin County Office of Education in Northern California Regional Liability Excess Fund (NCReLiEF) for the operation of a common risk management and insurance program. NCReLiEF is governed by a board consisting of representatives of member districts. The board controls the operations of NCReLiEF, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Condensed audited financial information for NCReLiEF for the year ended June 30, 2015 is as follows:

Total assets	$ 66,435,645
Total liabilities	$ 59,236,261
Total net position	$ 7,199,384
Total revenues	$ 46,568,938
Total expenditures	$ 45,562,131
Change in net position	$ 1,006,807

The relationship between the District and the Joint Powers Authorities is such that they are not component units of the District for financial reporting purposes.

(Continued)

NOTE 11 – CONTINGENCIES

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

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

<u>Construction Commitments</u>: At June 30, 2016, the District had approximately $75.1 million in outstanding commitments on construction contracts.

REQUIRED SUPPLEMENTARY INFORMATION

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	$ 288,625,874	$ 281,216,631	$ 277,754,583	$ (3,462,048)
Local sources	22,576,980	31,932,063	35,737,471	3,805,408
Total LCFF	311,202,854	313,148,694	313,492,054	343,360
Federal sources	30,667,490	59,950,097	39,085,796	(20,864,301)
Other state sources	36,729,975	66,407,888	68,095,365	1,687,477
Other local sources	3,580,096	7,425,872	8,060,558	634,686
Total revenues	382,180,415	446,932,551	428,733,773	(18,198,778)
Expenditures:				
Current:				
Certificated salaries	152,700,164	170,040,066	159,126,802	10,913,264
Classified salaries	54,542,833	60,399,875	56,779,833	3,620,042
Employee benefits	84,993,374	103,023,631	93,965,220	9,058,411
Books and supplies	30,895,557	53,179,868	23,562,375	29,617,493
Contract services and operating expenditures	37,708,634	48,513,226	39,007,327	9,505,899
Other outgo	1,062,739	923,572	1,038,431	(114,859)
Capital outlay	13,252,000	9,822,865	414,882	9,407,983
Debt service:				
Principal retirement	406,547	-	6,490	(6,490)
Interest	43,083	-	-	-
Total expenditures	375,604,931	445,903,103	373,901,360	72,001,743
Excess of revenues over expenditures	6,575,484	1,029,448	54,832,413	53,802,965
Other financing sources (uses):				
Transfers in	1,292,073	1,500,518	1,871,733	371,215
Transfers out	(16,000,000)	(16,000,000)	(16,735,745)	(735,745)
Total other financing sources (uses)	(14,707,927)	(14,499,482)	(14,864,012)	(364,530)
Change in fund balance	(8,132,443)	(13,470,034)	39,968,401	53,438,435
Fund balance, July 1, 2015	79,580,837	79,580,837	79,580,837	-
Fund balance, June 30, 2016	$ 71,448,394	$ 66,110,803	$ 119,549,238	$ 53,438,435

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
For the Year Ended June 30, 2016

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 1, 2012	$ -	$74.1 million	$74.1 million	0%	$194 million	39%
June 1, 2013	$ -	$90.8 million	$90.8 million	0%	$202 million	38%
June 1, 2014	$ -	$90.8 million	$90.8 million	0%	$193 million	44%
December 1, 2015	$ -	$93.7 million	$93.7 million	0%	$203 million	46%

See note to required supplementary information

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016
District's proportion of the net pension liability	0.325%	0.320%
District's proportionate share of the net pension liability	$189,746,000	$215,767,000
State's proportionate share of the net pension liability associated with the District	114,578,000	114,117,000
Total net pension liability	$304,324,000	$329,884,000
District's covered-employee payroll	$144,623,000	$148,755,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.20%	145.05%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

(Continued)

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016
District's proportion of the net pension liability	0.503%	0.493%
District's proportionate share of the net pension liability	$ 59,175,446	$ 78,908,000
District's covered-employee payroll	$ 54,130,000	$ 59,697,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	109.32%	132.18%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

All years prior to 2015 are not available.

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016
Contractually required contribution	$ 13,209,402	$ 17,509,201
Contributions in relation to the contractually required contribution	13,209,402	17,509,201
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$148,755,000	$163,180,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%

All years prior to 2015 are not available.

(Continued)

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016
Contractually required contribution	$ 7,026,907	$ 7,013,119
Contributions in relation to the contractually required contribution	7,026,907	7,013,119
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 59,697,000	$ 59,198,000
Contributions as a percentage of covered-employee payroll	11.77%	11.85%

All years prior to 2015 are not available.

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

C - Schedule of the District's Proportionate Share of the Net Pension Liability

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Schedule of the District's Contributions

The Schedule of the District's Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

E- Changes of Benefit Terms

There are no changes in benefit terms reported in the Required Supplementary Information.

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR FUNDS
June 30, 2016

	Charter School Fund (09)	Adult Education Fund (11)	Child Develop-ment Fund (12)	Cafeteria Fund (13)	Deferred Mainten-ance Fund (14)	Capital Facilities Fund (25)	Mello-Roos Fund (49)	Bond Interest and Redemption Fund (51)	Tax Override Fund (53)	Debt Service Fund (56)	Total
ASSETS											
Cash in County Treasury	$ 7,425,193	$ 1,008,563	$ 477,200	$ 8,518,336	$ 2,564,843	$ 1,346,951	$ 2	$ 24,337,364	$ 19	$ 3,401	$ 45,681,872
Cash on hand and in banks	-	2,000	-	9,358	-	-	-	-	-	-	11,358
Cash in revolving fund	582	520	-	2,500	-	-	-	-	-	-	3,602
Cash with Fiscal Agent	-	-	-	-	-	-	-	1,070,000	-	10,211,925	11,281,925
Receivables	515,631	719,954	79,094	2,290,008	2,429	1,495	-	34,533	5	331	3,643,480
Store inventory	-	-	-	453,695	-	-	-	-	-	-	453,695
Due from other funds	151,205	90	77,913	85,390	-	1,000,000	-	-	-	-	1,314,598
Prepaid expenditures	22,245	950	-	10,170	-	-	-	-	-	-	33,365
Total assets	$ 8,114,856	$ 1,732,077	$ 634,207	$ 11,369,457	$ 2,567,272	$ 2,348,446	$ 2	$ 25,441,897	$ 24	$ 10,215,657	$ 62,423,895
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	$ 134,779	$ 106,324	$ 18,167	$ 262,705	$ 507,150	$ 1,981	$ -	$ -	$ -	$ -	$ 1,031,106
Unearned revenue	60,808	-	-	-	-	-	-	-	-	-	60,808
Due to other funds	6,798	145,629	197,844	804,063	72	37,642	2	-	24	-	1,192,074
Total liabilities	202,385	251,953	216,011	1,066,768	507,222	39,623	2	-	24	-	2,283,988
Fund balances:											
Nonspendable	22,827	1,470	-	466,365	-	-	-	-	-	-	490,662
Restricted	7,889,644	1,478,654	418,196	9,836,324	2,060,050	2,308,823	-	25,441,897	-	10,215,657	59,649,245
Total fund balances	7,912,471	1,480,124	418,196	10,302,689	2,060,050	2,308,823	-	25,441,897	-	10,215,657	60,139,907
Total liabilities and fund balances	$ 8,114,856	$ 1,732,077	$ 634,207	$ 11,369,457	$ 2,567,272	$ 2,348,446	$ 2	$ 25,441,897	$ 24	$ 10,215,657	$ 62,423,895

STOCKTON UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
ALL NON-MAJOR FUNDS
For the Year Ended June 30, 2016

	Charter School Fund (09)	Adult Education Fund (11)	Child Develop-ment Fund (12)	Cafeteria Fund (13)	Deferred Mainten-ance Fund (14)	Capital Facilities Fund (25)	Mello-Roos Fund (49)	Bond Interest and Redemption Fund (51)	Tax Override Fund (53)	Debt Service Fund (56)	Total
Revenues:											
State apportionment	$ 18,476,512	$ -	$ -	$ -	$ 2,000,000	$ -	$ -	$ -	$ -	$ -	$ 20,476,512
Federal sources	-	1,085,398	-	16,964,729	-	-	-	-	-	-	18,050,127
Other state sources	2,200,303	2,399,628	5,391,632	1,177,868	-	-	-	418,890	-	-	11,588,321
Other local sources	61,278	761,490	13,687	383,586	(42)	881,756	6	32,625,665	53	341	34,727,820
Total revenues	$ 20,738,093	4,246,516	5,405,319	18,526,183	1,999,958	881,756	6	33,044,555	53	341	84,842,780
Expenditures:											
Current:											
Certificated salaries	7,524,077	1,502,509	1,750,629	-	-	-	-	-	-	-	10,777,215
Classified salaries	945,072	438,332	1,611,247	5,648,004	-	-	-	-	-	-	8,642,655
Employee benefits	3,619,365	749,316	1,399,496	2,923,933	-	-	-	-	-	-	8,692,110
Books and supplies	816,335	348,989	149,945	8,493,438	-	-	-	-	-	-	9,808,707
Contract services and operating expenditures	3,013,737	366,607	101,389	411,518	237,078	50,295	-	-	-	-	4,180,624
Capital outlay	19,784	-	11,144	1,009,375	947,910	-	-	-	-	-	1,988,213
Debt service:											
Principal retirement	-	-	-	-	-	1,035,000	-	10,750,000	-	-	11,785,000
Interest	-	-	-	-	-	1,585,640	-	14,299,802	-	-	15,885,442
Total expenditures	15,938,370	3,405,753	5,023,850	18,486,268	1,184,988	2,670,935	-	25,049,802	-	-	71,759,966
Excess (deficiency) of revenues over (under) expenditures	4,799,723	840,763	381,469	39,915	814,970	(1,789,179)	6	7,994,753	53	341	13,082,814
Other financing sources (uses):											
Transfers in	-	-	-	-	-	1,000,000	-	-	-	560,000	1,560,000
Transfers out	(450,000)	(97,436)	(196,051)	(727,039)	-	-	(1,529)	(560,000)	(13,314)	-	(2,045,369)
Premium from the sale of bonds	-	-	-	-	-	-	-	567,482	-	-	567,482
Total other financing sources (uses)	(450,000)	(97,436)	(196,051)	(727,039)	-	1,000,000	(1,529)	7,482	(13,314)	560,000	82,113
Net change in fund balances	4,349,723	743,327	185,418	(687,124)	814,970	(789,179)	(1,523)	8,002,235	(13,261)	560,341	13,164,927
Fund balances, July 1, 2015	3,562,748	736,797	232,778	10,989,813	1,245,080	3,098,002	1,523	17,439,662	13,261	9,655,316	46,974,980
Fund balances, June 30, 2016	$ 7,912,471	$ 1,480,124	$ 418,196	$ 10,302,689	$ 2,060,050	$ 2,308,823	$ -	$ 25,441,897	$ -	$ 10,215,657	$ 60,139,907

Stockton Unified School District was established on July 1, 1936. The District operates 41 elementary schools, and 10 high schools, including Weber Institute of Technology, Stockton Early College Academy, Stockton Alternative High School, Merlo Institute of Environmental Technology, Pacific Law Academy and Stockton Health Careers Academy. The District also maintains an adult education school, a special education school, a continuation high school, an independent study program and a child development program. There were no changes in District boundaries during the year.

GOVERNING BOARD

Name	Office	Term Expires
Kathy Garcia	President	2016
Gloria Allen	Vice President	2016
Maria Mendez	Member	2018
Andrea L. Burrise	Member	2018
Colleen Keenan	Member	2016
Angela Phillips	Member	2018
Steve Smith	Member	2018

ADMINISTRATION

Eliseo Davalos, Ph.D
Superintendent

Mark Hagemann
Deputy Superintendent

Lisa Grant-Dawson
Chief Business Official

Craig Wells
Assistant Superintendent, Human Resources

Thomas Anderson
Assistant Superintendent, Educational Services

Reyes Gauna
Assistant Superintendent, Educational Services

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016

	Second Period Report	Annual Report
DISTRICT		
Elementary:		
Transitional Kindergarten through Third	11,213	11,215
Fourth through Sixth	8,439	8,434
Seventh and Eighth	5,012	5,006
Total Elementary	24,664	24,655
Secondary:		
Ninth through Twelfth	8,102	7,995
Total Secondary	8,102	7,995
	32,766	32,650

	Second Period Report	Annual Report
CHARTER SCHOOL - CLASSROOM BASED		
Nightingale Elementary Charter School		
Elementary:		
Transitional Kindergarten through Third	158	158
Fourth through Sixth	124	125
Seventh and Eighth	62	62
Pittman Elementary Charter School		
Elementary:		
Transitional Kindergarten through Third	320	319
Fourth through Sixth	206	204
Seventh and Eighth	100	99
Subtotal Classroom Based	970	967

(Continued)

	Second Period Report	Annual Report
CHARTER SCHOOL - CLASSROOM BASED (Continued)		
Stockton Health Careers Academy		
Secondary:		
Ninth through Twelfth	443	438
Pacific Law Academy		
Secondary:		
Ninth through Twelfth	201	199
Stockton Unified Early College Academy		
Secondary:		
Ninth through Twelfth	364	362
Total Classroom Based	1,978	1,966

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016

Grade Level	Statutory Minutes Require-ment	2015-16 Actual Minutes	Number of Days Traditional Calendar	Status
DISTRICT				
Kindergarten	36,000	54,000	180	In Compliance
Grade 1	50,400	54,000	180	In Compliance
Grade 2	50,400	54,000	180	In Compliance
Grade 3	50,400	54,000	180	In Compliance
Grade 4	54,000	54,000	180	In Compliance
Grade 5	54,000	54,000	180	In Compliance
Grade 6	54,000	54,000	180	In Compliance
Grade 7	54,000	56,700	180	In Compliance
Grade 8	54,000	56,700	180	In Compliance
Grade 9	64,800	64,836	180	In Compliance
Grade 10	64,800	64,836	180	In Compliance
Grade 11	64,800	64,836	180	In Compliance
Grade 12	64,800	64,836	180	In Compliance
CHARTER SCHOOLS				
Nightingale Elementary Charter School				
Kindergarten	34,971	62,520	180	In Compliance
Grade 1	48,960	62,520	180	In Compliance
Grade 2	48,960	62,520	180	In Compliance
Grade 3	48,960	62,520	180	In Compliance
Grade 4	52,457	62,520	180	In Compliance
Grade 5	52,457	62,520	180	In Compliance
Grade 6	52,457	62,520	180	In Compliance
Grade 7	52,457	66,120	180	In Compliance
Grade 8	52,457	66,120	180	In Compliance
Pittman Elementary Charter School				
Kindergarten	34,971	62,710	180	In Compliance
Grade 1	48,960	63,420	180	In Compliance
Grade 2	48,960	63,420	180	In Compliance
Grade 3	48,960	63,420	180	In Compliance
Grade 4	52,457	63,420	180	In Compliance
Grade 5	52,457	63,420	180	In Compliance
Grade 6	52,457	63,420	180	In Compliance
Grade 7	52,457	66,120	180	In Compliance
Grade 8	52,457	66,120	180	In Compliance

(Continued)

Grade Level	Statutory Minutes Require-ment	2015-16 Actual Minutes	Number of Days Traditional Calendar	Status
CHARTER SCHOOLS (Continued)				
Stockton Health Careers Academy				
Grade 9	62,949	64,851	180	In Compliance
Grade 10	62,949	64,851	180	In Compliance
Grade 11	62,949	64,851	180	In Compliance
Grade 12	62,949	64,851	180	In Compliance
Pacific Law Academy				
Grade 9	62,949	65,271	180	In Compliance
Grade 10	62,949	65,271	180	In Compliance
Grade 11	62,949	65,271	180	In Compliance
Grade 12	62,949	65,271	180	In Compliance
Stockton Unified Early College Academy				
Grade 9	64,800	64,828	180	In Compliance
Grade 10	64,800	64,828	180	In Compliance
Grade 11	64,800	64,828	180	In Compliance
Grade 12	64,800	64,828	180	In Compliance

See accompanying notes to supplementary information.

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
U.S. Department of Education - Passed through California Department of Education			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	13379	$ 6,014,323
84.027A	Special Education: IDEA Mental Health Allocation Plan, Part B, Sec 611	15197	389,110
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	305,249
84.173	Special Education: IDEA Preschool Grants Part B, Sec 619	13430	152,101
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Sec 619	13431	3,979
	Subtotal Special Education Cluster		6,864,762
	Adult Education Programs:		
84.002A	Adult Education: Adult Basic Education and Education State Leadership	14110	190,975
84.002	Adult Education: Adult Basic Education & ESL	14508	405,043
84.002	Adult Education: Adult Secondary Education	13978	489,380
	Subtotal Adult Education Programs		1,085,398
84.010	NCLB: Title I, Part A, Basic Grants Low-Income and Neglected	14329	20,754,082
84.186	NCLB:Title IV, Part A, Safe and Drug Free Schools and Communities (SDFSC) - Technical Assistance	14378	793,625
84.060	Indian Education	10011	344,082
84.377	NCLB: Title I, School Improvement Grant (SIG)	15183	2,989,891
84.367	NCLB: Title II, Part A Improving Teacher Quality Local Grants	14341	2,289,869
84.365	NCLB Title III, Limited English Proficiency	14346	1,112,999
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	368,321
84.181	Special Education: IDEA Early Intervention Grants,	24314	67,389
	Total U.S. Department of Education		36,670,418

(Continued)

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
	U.S. Department of Health and Human Services - Passed through California Department of Education		
93.600	Head Start	*	2,387,918
93.243	Project Aware	*	75,898
94.006	ROTC	*	98,845
	Medi-Cal Programs:		
93.778	Medi-Cal Administrative Activities (MAA) Claims	*	114,772
93.778	Medi-Cal Billing Option	10013	710,766
	Subtotal Medi-Cal Programs		825,538
	Total U.S. Department of Health and Human Services		3,388,199
	U.S. Department of Agriculture - Passed through California Department of Education		
10.555	National School Lunch Program	13396	16,964,729
	Total Federal Programs		$ 57,023,346

*PCS Number and program name not available or not applicable.

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

	Debt Service Fund
June 30, 2016 Unaudited Actual Financial Reporting Ending Fund Balance:	$ 9,760,657
Audit adjustment to adjust cash with fiscal agent	455,000
June 30, 2016 Audit Financial Statements Ending Fund Balance	$ 10,215,657

	Bond Interest and Redemption Fund
June 30, 2016 Unaudited Actual Financial Reporting Ending Fund Balance:	$ 23,916,897
Audit adjustment to adjust cash in county treasury and cash with fiscal agent	1,525,000
June 30, 2016 Audit Financial Statements Ending Fund Balance	$ 25,441,897

	Self-Insurance Fund
June 30, 2016 Unaudited Actual Financial Reporting Ending Fund Balance:	$ 11,938,115
Audit adjustment to adjust cash in county treasury and cash with fiscal agent	(2,759,424)
June 30, 2016 Audit Financial Statements Ending Fund Balance	$ 9,178,691

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

See accompanying notes to supplementary information.

	(Budget) 2017	2016	2015	2014
General Fund				
Revenues and other financing sources	$ 419,722,336	$ 430,605,506	$ 372,509,144	$ 330,287,397
Expenditures	409,467,688	373,901,360	342,989,746	311,693,011
Other uses and transfers out	16,700,000	16,735,745	15,029,202	4,733,973
Total outgo	426,167,688	390,637,105	358,018,948	316,426,984
Change in fund balance	$ (6,445,352)	$ 39,968,401	$ 14,490,196	$ 13,860,413
Ending fund balance	$ 113,103,886	$ 119,549,238	$ 79,580,837	$ 65,090,641
Available reserves	$ 12,874,472	$ 12,101,813	$ 58,814,829	$ 44,049,012
Designated for economic uncertainties	$ 8,502,701	$ 7,792,332	$ 7,140,284	$ 6,328,540
Undesignated fund balance	$ 4,371,771	$ 4,309,481	$ 51,674,545	$ 37,720,472
Available reserves as percentages of total outgo	3.0%	3.1%	16.43%	13.92%
All Funds				
Total long-term liabilities	$ 789,540,289	$ 806,368,460	$ 720,618,123	$ 459,147,911
Average daily attendance at P-2, excluding Charter School	32,756	32,766	32,754	32,492

The General Fund fund balance has increased by $68,319,010 over the past three years. The fiscal year 2015-2016 budget projects a decrease of $6,445,352. For a district this size, the State of California recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2016, the District has met this requirement.

The District has incurred operating surpluses in each of the past three years, and anticipates incurring an operating deficit during the fiscal year ending June 30, 2017.

Total long-term liabilities have increased by $347,220,549 over the past two years, due primarily to the addition of General Obligation Bonds and net pension liability.

Average daily attendance has increased by 274 over the past two years. The District anticipates a decrease of 10 ADA for the 2016-2017 fiscal year.

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2016

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
Nightingale Charter School	Included in Charter Fund
Pittman Charter School	Included in Charter Fund
Health Careers Academy	Included in Charter Fund
Pacific Law Academy	Included in Charter Fund
Stockton Unified Early College Academy	Included in Charter Fund
Aspire Langston Hughes Academy	Separate Report
Aspire APEX Academy	Separate Report
Aspire Port City Academy	Separate Report
Aspire Rosa Parks Academy	Separate Report
Dr. Lewis Dolphin Stallworth Sr. Charter Schools	Separate Report
Stockton Collegiate International Elementary Charter School	Separate Report
Stockton Collegiate International Secondary Charter School	Separate Report
TEAM Charter School	Separate Report

See accompanying notes to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

The Schedule of Expenditure of Federal Awards includes the federal award activity of Stockton Unified School District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21 Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2016.

Description	CFDA Number	Amount
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		$ 57,135,923
Less: Medi-Cal Billing Option not spent	93.778	(112,577)
Total Schedule of Expenditure of Federal Awards		$ 57,023,346

*Program name not available.

(Continued)

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

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

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

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2016-2017 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

F - Schedule of Charter Schools

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

NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2016, the District did not adopt this program.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

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

Board of Education
Stockton Unified School District
Stockton, California

Report on Compliance with State Laws and Regulations

We have audited Stockton Unified School District's compliance with the types of compliance requirements described in the State of California *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2016.

Description	Procedures Performed
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	Yes
After school	Yes
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	No, see below
Immunizations	No, see below
Attendance, for charter schools	Yes
Mode of Instruction, for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study, for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for Charter Schools	No, see below
Annual Instructional Minutes - Classroom-Based, for Charter Schools	Yes
Charter School Facility Grant Program	Yes

(Continued)

The District did not offer an Early Retirement Incentive Program; therefore, we did not perform any procedures related to the Early Retirement Incentive Program.

We did not perform any procedures related to Juvenile Court Schools because the District did not operate this program.

We did not perform procedures related to Middle or Early College High Schools because the District does not offer Middle or Early College High Schools.

We did not perform any procedures related to Educator Effectiveness because the District did not have expenditures charged to this program in the current year.

We did not perform any procedures related to After School Education and Safety Program: Before School because the District did not offer a Before School program in the current year.

We did not perform any procedures related to Independent Study-Course Based because the District does not offer this program.

We did not perform any procedures related to Immunizations because the District does not have any schools (kindergarten and 7th Grade) that did not submit immunization assessment reports to the California Department of Public Health. In addition, the District did not have any schools that reported a conditional admission rate greater than 25 percent in kindergarten.

We did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study for Charter Schools and Determination of Funding for Nonclassroom-Based Instruction for Charter Schools because the District did not have any charter schools offer nonclassroom-based instruction in the current year.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on Stockton Unified School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State of California's *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide 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 Stockton Unified School District's compliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Stockton Unified School District's compliance.

Basis for Qualified Opinion on Compliance with State Laws and Regulations

As described in Finding 2016-001 in the accompanying Schedule of Audit Findings and Questioned Costs, Stockton Unified School District did not comply with the requirements regarding Attendance Reporting. Compliance with such requirements is necessary, in our opinion, for Stockton Unified School District to comply with the requirements applicable to the state laws and regulations.

(Continued)

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Stockton Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2016.

Other Matter

Stockton Unified School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. Stockton Unified School District's response was not subjected to auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the State of California's *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2016

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Stockton Unified School District
Stockton, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stockton Unified School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Stockton Unified School District's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stockton Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stockton Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Stockton Unified School District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stockton Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Education
Stockton Unified School District
Stockton, California

Report on Compliance for Each Major Federal Program

We have audited Stockton Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Stockton Unified School District's major federal programs for the year ended June 30, 2016. Stockton Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Stockton Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Stockton Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Stockton Unified School District complied, in all material respects, with the types of 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, 2016.

(Continued)

Report on Internal Control Over Compliance

Management of Stockton Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Stockton Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Stockton Unified School District's internal control over compliance.

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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2016

FINDINGS AND RECOMMENDATIONS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Noncompliance material to financial statements noted?	______ Yes	X No

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	______ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	______ Yes	X None reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______ Yes	X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555	National School Lunch Program
84.377	NCLB: Title I, School Improvement Grant (SIG)
93.600	Headstart

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,710,700	
Auditee qualified as low-risk auditee?	X Yes	______ No

STATE AWARDS

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

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2016-001 STATE COMPLIANCE - ATTENDANCE REPORTING (10000)

Criteria

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

Condition

At Spanos Elementary, one student was improperly included for a total misstatement of one day.

Effect

The effect of this finding is an overstatement of less than 0.01 ADA in both the Fourth through Sixth grade span.

Cause

The error was the result of a clerical error in accounting for attendance.

Fiscal Impact

The error is below 0.50 ADA, therefore there is no fiscal impact.

Recommendation

The District should enforce controls to ensure accurate accounting for attendance.

Corrective Action Plan

The District will provide specific training to the staff at the schools where exceptions were noted by the auditors to reduce the possibility of similar errors occurring in the future.

The District conducts monthly meetings with school-site staff assigned to the attendance accounting function. The meetings review, in part, proper procedures for the recording and reporting of ADA, errors noted from submitted site attendance reports, and questions coming from school-site personnel regarding attendance accounting. The District also provides individual training for new attendance accounting personnel and when additional training of existing personnel appears warranted. The District will continue to provide training with emphasis on the exceptions noted from the audit testing.

STATUS OF PRIOR YEAR

FINDINGS AND RECOMMENDATIONS

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2015-001 Condition: At various school sites selected for testing of the Associated Student Body financial activity: • Receipts are not issued when funds are turned in to the secretary. • No proof of items sold or reconciliation in the student store. • Inventory counts for the student store were not being performed on a regular basis, and no documentation is maintained. • Profit and loss statements for the student store are not reviewed independently. Recommendation: • Receipts should be issued and signed when funds are turned in to the secretary. • A tally sheet should be maintained for items sold and a cash reconciliation to items sold performed. • Inventory counts for the student store should be performed and reviewed periodically. • Profit and loss statements the student store should be independently reviewed.	Implemented.	
2015-002 Condition: At San Joaquin Elementary one student was improperly included for a total misstatement of one day. Recommendation: The District should enforce controls to ensure accurate accounting for attendance.	Not implemented.	See Schedule of Audit Findings and Questioned Costs, #2016-001.

(Continued)

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2015-003 Condition: At Stockton Early College Academy, one student was improperly included for a total misstatement of one day. Recommendation: The District should enforce controls to ensure accurate accounting for attendance.	Implemented.	