

STOCKTON UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2018

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

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FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
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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, 2018, 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 the Stockton Unified School District, as of June 30, 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting for Financial Reporting for Postemployment Benefits Other than Pensions". This resulted in a restatement of the July 1, 2017 net position of \$(87,472,675). Note disclosures and required supplementary information requirements about OPEB are also discussed. Our opinion is not modified with respect to this matter.

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, the Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability, 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 the 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019 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 LLP

Crowe LLP

Sacramento, California
February 22, 2019



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2018, 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

- At June 30, 2018, the net position of the District increased by \$1.1 million from the prior year. This takes into consideration an adjustment of \$87.5 million for the cumulative effects of Governmental Accounting Standards Board Standards Board (GASB) Statement 75.
- Total government-wide revenue for the 2018 fiscal year was \$539.7 million. Expenditures totaled \$538.6 million. The difference of \$1.1 million is an increase to the District's net position.
- Capital assets, net of depreciation, increased by \$27.2 million during the year. This includes the completion of a number of projects previously in the Construction in Progress account. Capital asset projects completed during the year include the purchase of land for future school construction in the Quail Lakes area of the city, the completion of the Roosevelt Elementary modernization project, roof replacement at Edison and Franklin High Schools, and completion of buildings within the Edison High School Master Plan. At the end of the 2017-18 year, total funds expended on projects in the construction phase totaled \$38.2 million.
- At June 30, long-term debt totaled \$990.6 million. During the 2017-18 year, general obligation bond debt was reduced by \$17.7 million. Accreted interest increased by \$4.9 million. Net pension liability increased by \$47.0 million to \$408.6 million. The liability for post-employment healthcare benefits increased by \$5.6 million to \$123.0 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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: self-insurance and retiree benefits.	Instances in which the District administers resources on behalf of someone else, such as student activities monies.
Required financial statements	Statement of Net 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, 2018 and 2017 is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2018	2017	
Assets:			
Cash and Investments	\$ 352,179,220	\$ 355,686,982	\$ (3,507,762)
Receivables	19,714,811	26,693,779	(6,978,968)
Prepaid expenses	214,178	49,582	164,596
Inventories	947,071	1,366,857	(419,786)
Non-depreciable capital assets	74,323,914	94,468,266	(20,144,352)
Capital assets, net of depreciation	536,071,550	488,731,422	47,340,128
Total assets	<u>983,450,744</u>	<u>966,996,888</u>	<u>16,453,856</u>
Deferred Outflows of Resources:			
Deferred outflows of resources - pensions	128,563,638	77,879,550	50,684,088
Deferred outflows of resources - OPEB	5,612,502	-	5,612,502
Deferred loss from Refunding of Debt	26,302,263	27,724,048	(1,421,785)
Total Deferred Outflow	<u>160,478,403</u>	<u>105,603,598</u>	<u>54,874,805</u>
Liabilities:			
Accounts payable	30,033,357	24,464,421	5,568,936
Other current liabilities	11,647,919	9,361,358	2,286,561
Long-term liabilities	1,013,509,129	966,602,051	46,907,078
Total liabilities	<u>1,055,190,405</u>	<u>1,000,427,830</u>	<u>54,762,575</u>
Deferred Inflows of Resources:			
Deferred inflows of resources - pensions	<u>31,931,000</u>	<u>16,437,000</u>	<u>15,494,000</u>
Net Position:			
Net investment in capital assets	298,235,200	201,441,598	96,793,602
Restricted	109,747,519	152,983,142	(43,235,623)
Unrestricted, including cumulative effects of GASB 75 implementation	<u>(351,174,977)</u>	<u>(298,689,084)</u>	<u>(52,485,893)</u>
Total Net Position	<u>\$ 56,807,742</u>	<u>\$ 55,735,656</u>	<u>\$ 1,072,086</u>

Total assets and deferred outflows increased by a net \$71.3 million during the 2018 fiscal year. Of this total, deferred outflows of resources increased by \$54.9 and total capital assets, net of depreciation, increased by \$27.2 million. Cash and receivables decreased by \$10.5 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 \$70.2 million. Of this amount, accounts payable and other current liabilities decreased by \$7.8 million, while long-term debt increased by \$46.9 million. Deferred inflows increased by \$15.5 million. Long-term debt is discussed in detail in a later section of this report.

The net increase to assets of \$71.3 million, reduced by the increase of \$70.2 million to liabilities results in an increase to the District's net position at June 30, 2018 of \$1.1 million.

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

	Government-Wide Activities		Year Over Year Change
	2018	2017	
Revenues - Program:			
Charges for Services	\$ 120,075	\$ 377,620	\$ (257,545)
Operating Grants and Contributions	119,362,857	136,565,489	(17,202,632)
Capital Grants and Contributions	836,868	-	836,868
Revenues - General:			
Unrestricted Federal and State Aid	327,220,719	320,949,413	6,271,306
Taxes Levied for General Purposes	50,941,215	50,651,679	289,536
Taxes Levied for Debt Service	28,151,340	32,650,630	(4,499,290)
Taxes Levied for Other Specific Purposes	2,039,012	1,459,484	579,528
Interest and Investment Earnings	3,183,422	1,932,694	1,250,728
Other General Revenues	7,826,006	15,407,348	(7,581,342)
Total revenues	<u>539,681,514</u>	<u>559,994,357</u>	<u>(20,312,843)</u>
Expenses:			
Instruction	306,217,030	290,473,384	15,743,646
Pupil and Instructional Services	132,901,411	120,258,195	12,643,216
General Administration	23,584,007	19,753,242	3,830,765
Plant Services	59,819,489	50,732,203	9,087,286
Ancillary Serv., Enterprise Activ., Other Outgo, and Interest on Long-term Liab.	16,087,491	24,290,603	(8,203,112)
Total Expenses	<u>538,609,428</u>	<u>505,507,627</u>	<u>33,101,801</u>
Increase in Net Position	1,072,086	54,486,730	(53,414,644)
Net Position, Beginning of the Year as restated	55,735,656	88,721,601	(32,985,945)
Cumulative Effect of GASB 75 implementation	-	(87,472,675)	87,472,675
Net Position, End of the Year	<u>\$ 56,807,742</u>	<u>\$ 55,735,656</u>	<u>\$ 1,072,086</u>

For the 2017-18 fiscal year, total District revenues were \$539.7 million. Total District expenses were \$538.6 million. The difference, \$1.1 million, is an increase to net position at June 30, 2018.

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 slightly during the 2017-18 year when compared with the prior school year. Enrollment at the end of the second school month was 35,457 students, an increase of 35 students from the 2016-2017 year. When District charter school enrollment is included in the totals, enrollment increased by 72 students, indicating that the District is continuing to show enrollment growth.

Average Daily Attendance (ADA) showed a small decline during the 2017-18 year. The ADA for the Second Principal Apportionment (P-2) period totaled 33,030, a decrease of 57 ADA from the prior fiscal year. The District is continuing to work to improve student attendance. The District is currently projecting small increases in both enrollment and ADA for the 2018-19 school year.

Financial Analysis of the District's Funds

At June 30, 2018, the District had twelve governmental funds reporting a combined fund balance of \$299.7 million, a decrease of \$24.6 million over the prior year. Of these funds, five 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

Governmental Funds - Fund Balance

	Fund Balance - June 30,		Year Over
	2018	2017	Year Change
General Fund	\$ 125,296,016	\$ 142,229,342	\$ (16,933,326)
Charter Schools Special Revenue Fund	13,972,788	11,463,815	2,508,973
Adult Education Fund	1,622,451	1,720,972	(98,521)
Child Development Fund	117,625	108,158	9,467
Cafeteria Special Revenue Fund	7,096,953	9,073,308	(1,976,355)
Deferred Maintenance Fund	4,163,345	8,804,083	(4,640,738)
Building Fund	39,933,885	57,412,333	(17,478,448)
Capital Facilities Fund	5,973,862	4,039,308	1,934,554
County School Facilities Fund	-	-	-
Special Reserve for Capital Outlay Projects	60,767,522	49,885,781	10,881,741
Bond Interest and Redemption Fund	27,252,818	27,858,526	(605,708)
Debt Service Fund	13,534,043	11,744,468	1,789,575
Totals	<u>\$ 299,731,308</u>	<u>\$ 324,340,094</u>	<u>\$ (24,608,786)</u>

General Fund – Revenue and Expenditure Analysis

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2018, along with the increase or decrease from fiscal year 2017 and breakdowns by percentage. The table does not include transfers in and other financing sources.

General Fund				
FY-2018 Actual	Percent Of Total	Increase (Decrease) from FY-2017	Percent Increase or (Decrease)	
Revenues:				
LCFF Sources	\$ 342,166,808	76.94%	\$ 7,322,275	2.19%
Federal Revenue	32,481,470	7.30%	(6,427,846)	(16.52)%
Other State Revenue	61,213,643	13.76%	(8,150,261)	(11.75)%
Other Local Revenue	8,864,552	2.00%	(1,525,490)	(14.68)%
Total Revenues	<u>\$ 444,726,473</u>	<u>100.00%</u>	<u>\$ (8,781,322)</u>	<u>(1.94)%</u>

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-2018 Actual	Percent Of Total	Increase (Decrease) from FY-2017	Percent Increase or (Decrease)

Expenditures:

Certificated Salaries	\$ 179,805,198	40.02%	\$ 5,939,361	3.42%
Classified Salaries	69,170,449	15.39%	9,252,727	15.44%
Employee Benefits	122,665,791	27.30%	4,260,188	3.60%
Books and Supplies	17,604,989	3.92%	(3,279,665)	(15.70)%
Services, Other Operating Expenses	47,999,475	10.68%	6,374,896	15.32%
Capital Outlay	11,460,378	2.55%	10,170,557	788.52%
Other Outgo/Dir. Supp./Indirect Costs	<u>634,195</u>	<u>0.14%</u>	<u>(44,296)</u>	<u>(6.53)%</u>
Total Expenditures	<u>\$ 449,340,475</u>	<u>100.00%</u>	<u>\$ 32,673,767</u>	<u>7.84%</u>

The District's financial condition continues to remain strong. The continuing strength of the national and state economies and the state's LCFE funding model are contributing to the District's stronger financial position. Stockton Unified is looking for the financial picture to remain strong during the 2018-19 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 2018 General Fund operating budget was adopted by the Governing Board in June of 2017. As adopted, budgeted revenues totaled \$444.6 million and budgeted expenditures totaled \$456.6 million. This resulted in a structural deficit of \$12.0 million. District reserves of \$119.7 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 2017-18 Second Interim report.

General Fund		Increase (Decrease)
FY-18 Actual Revenue	Board Approved Budget	

Revenue:			
LCFF Sources	\$ 342,166,809	\$ 344,616,562	\$ (2,449,753)
Federal Revenue	32,481,470	62,875,246	(30,393,776)
Other State Revenue	61,213,643	62,680,115	(1,466,472)
Other Local Revenue	8,864,552	7,598,472	1,266,080
Transfers In/Other Sources	<u>1,840,419</u>	<u>694,647</u>	<u>1,145,772</u>
Total Revenue	<u>\$ 446,566,893</u>	<u>\$ 478,465,042</u>	<u>\$ (31,898,149)</u>

General Fund		Increase (Decrease)
FY-18 Actual Expenditures	Board Approved Budget	

Expenditures:			
Certificated Salaries	\$ 179,805,198	\$ 188,190,511	\$ (8,385,313)
Classified Salaries	69,170,449	70,024,884	(854,435)
Employee Benefits	122,665,791	126,612,146	(3,946,355)
Books and Supplies	17,604,989	57,542,947	(39,937,958)
Services and Other Operating Expenses	47,999,475	56,755,344	(8,755,869)
Capital Outlay	11,460,378	13,574,423	(2,114,045)
Other Outgo/ Direct Support/Indirect Costs	634,195	(558,231)	1,192,426
Transfers Out/Other Uses	<u>14,159,744</u>	<u>14,139,298</u>	<u>20,446</u>
Total Expenditures	<u>\$ 463,500,219</u>	<u>\$ 526,281,322</u>	<u>\$ (62,781,103)</u>
Change in Net Ending Balance	<u>\$ (16,933,326)</u>	<u>\$ (47,816,280)</u>	<u>\$ 30,882,954</u>

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

Government-Wide Activities	
2018	2017

Land	\$ 36,080,997	\$ 25,735,353
Improvement of Sites	6,353,238	5,254,477
Buildings	527,127,817	480,751,689
Equipment	2,590,495	2,725,256
Construction in Progress	<u>38,242,917</u>	<u>68,732,913</u>
Totals	<u>\$ 610,395,464</u>	<u>\$ 583,199,688</u>

The table above reflects capital assets, net of depreciation, at June 30, 2018 and 2017. The District uses an asset capitalization threshold of \$50,000, except where federal funds are used to purchase the asset and then the capitalization threshold is \$5,000. Depreciation on each capitalized asset has been calculated using the straight-line method over applicable useful lives. Depreciation expense on completed assets totaled \$15.4

million for the 2017-18 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 \$27.2 million during the year. This includes the completion of a number of projects previously in the Construction in Progress account. Capital asset projects completed during the year include the purchase of land for future school construction in the Quail Lakes area of the city, the completion of the Roosevelt Elementary modernization project, roof replacement at Edison and Franklin High Schools, and completion of buildings within the Edison High School Master Plan. At the end of the 2017-18 year, total funds expended on projects in the construction phase totaled \$38.2 million.

Further information regarding capital assets can be found in note 4 to the financial statements.

Outstanding Debt at Year-End

	Government-Wide Activities	
	2018	2017
General Obligation Bonds, including Premiums	\$ 389,513,428	\$ 407,252,520
Accreted Interest – 2008 Series D General Obligation Bonds	26,908,569	22,008,512
Certificates of Participation, including Premiums	35,102,394	33,268,780
Qualified Zone Academic Bonds Payable	5,000,000	5,000,000
Net Pension Liability	408,589,000	361,610,000
Total OPEB Liability, including cumulative effects of GASB 75 implementation	122,983,677	117,364,770
Compensated Absences	<u>2,539,593</u>	<u>2,635,717</u>
Totals	<u>\$ 990,636,661</u>	<u>\$ 949,140,299</u>

At June 30, 2018, long-term debt totaled \$990.6 million. This represents an increase of \$41.5 million over the prior year even though the District did not issue any new general obligation bonds. The following components of long-term debt did increase during the fiscal year:

- Certificates of Deposit, including premiums by \$1.8 million to \$35.1 million;
- Accreted Interest on general obligation bonds by \$4.9 million to a total of \$26.9 million;
- Net pension liability by \$47.0 million to \$408.6 million; and
- Total OPEB Liability by \$5.6 million, to \$123.0 million.

The net pension liability is more fully discussed in notes 9 and 10 of the financial statements.

Decreases to long-term debt during the 2017-18 year included:

- Normal payments on general obligation bonds, including amortization of bond premiums - \$17.7 million; and
- Compensated absences by \$0.1 million to \$2.5 million.

General obligation bonds are detailed in note 6 of the financial statements.

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 2018-19 Stockton Unified School District budget has been developed with all components of the proposal presented by Governor Jerry Brown in January of 2018 and any applicable May Revise and Adopted Budget adjustments.

For education, the big news coming from the final Proposed Budget of his administration was the Governor's decision to fully fund the Local Control Funding Formula (LCFF), a decision coming two years earlier than the originally planned eight-year implementation. It is thought that the Governor wanted to complete his plan for education reform while still in office rather than leaving the task to his successor. The early implementation results from the continuing national and state economic recovery, politics, temporary taxes and the occasional supermajorities in both the California Assembly and Senate. The news brought the expectation of more revenue than anticipated for school districts in the budget year, along with the realization that beginning in 2018-19 and for all subsequent years, the LCFF formula could only be expected to provide a cost of living adjustment (COLA) and not the additional revenue that has been enjoyed in recent years.

What also must be considered when preparing a budget, whether for the state of California, or for a local school district, is that state revenues remain unstable because of reliance on the top one percent of taxpayers, a group that is not growing, and on sales and income taxes for the marginal dollar, not the less volatile property tax. Add to that the possibility of an economic downturn, where the question is not if it will happen, but when. All of this points to the need for careful budgeting and management of available funds. For Stockton Unified, the assessment of present needs, balanced against the uncertainty of future revenue streams, will be imperative as the District plans the educational programs for our students.

At the state level, the education funding plan continues to center on the Local Control Funding Formula. 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 the 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 of 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 2018.

The annual state appropriation provided to increase LCFF funding is the sole determinant of changes in school district LCFF revenues. For 2018-19, LCFF funding includes the statutory Cost of Living Adjustment (COLA) of 2.71%. Additional funding augments this percentage and brings the total COLA for LCFF funding to 3.70%, a total of \$3.6 billion state-wide. As noted earlier, the Local Control Funding Formula is now fully funded.

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

LCFF - Base Grant Entitlements – Target Funding

Nearly \$3.7 billion is budgeted state-wide for to reach full funding of the Local Control Funding Formula (LCFF). As designed, school districts receive a base grant allocation calculated by grade span: K-3, 4-6, 7-8, and 9-12. The statutory COLA of 2.71% has been augmented by additional funding to bring the COLA to 3.7% for the calculation of the 2018-19 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
2017-18 Base Grant per ADA	\$ 7,193	\$ 7,301	\$ 7,518	\$ 8,712
Augmented COLA @ 3.7%	\$ 266	\$ 270	\$ 278	\$ 322
2018-19 Base Grant per ADA	\$ 7,459	\$ 7,571	\$ 7,796	\$ 9,034

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

In addition to the base grant, school districts receive adjustments for class size reduction by grade span (GSA) at grades K-3 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
2018-19 Base Grant per ADA	\$ 7,459	\$ 7,571	\$ 7,796	\$ 9,034
Adjustment Percentage	10.4% GSA			2.6% CTE
Adjustment Amount	\$ 776	\$ -	\$ -	\$ 235
Adjusted Grant per ADA	\$ 8,235	\$ 7,571	\$ 7,796	\$ 9,269

LCFF – Supplemental and Concentration Grants per ADA – Target Funding

Increases to supplemental and concentration grants 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	\$ 8,235	\$ 7,571	\$ 7,796	\$ 9,269
20% Supplemental Grant	\$ 1,647	\$ 1,514	\$ 1,559	\$ 1,854
50% Concentration Grant (for eligible students exceeding 55% of enrollment)	\$ 4,118	\$ 3,786	\$ 3,898	\$ 4,635
Total Adjusted Target Funding Amount	\$ 14,000	\$ 12,871	\$ 13,253	\$ 15,758

Other Education Items Included in the State Budget

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

- \$1.1 billion in one-time discretionary funds will go to all school districts, county offices of education, and charter schools. This amount, estimated to provide \$184 per ADA, can be used for such things as state standards implementation, teacher induction, technology, infrastructure, and deferred maintenance needs.
- \$300 million in one-time funding is appropriated to support the lowest performing students. This funding will be provided in equal per pupil grants to Local Educational Agencies (LEA).

- \$6.2 million in funding (2.71% COLA) for the Mandated Block Grant.
- A COLA, estimated at \$14.24 per ADA, for Special Education, with \$100 million in additional funding to implement programs to attract and retain Special Education teachers.
- \$300 million in funding for K-12 Career Technical Education (CTE) in two components: \$150 million in on-going funding allocated through the existing Career Technical Education Incentive Grant (CTEIG) program, and \$150 million in on-going funding to establish a new K-12 component in the Strong Workforce program to expand the availability of “high quality, industry-valued CTE.”
- \$100 million in one-time funding, administered by the State Allocation Board, to build or renovate classrooms to support full-day kindergarten programs.

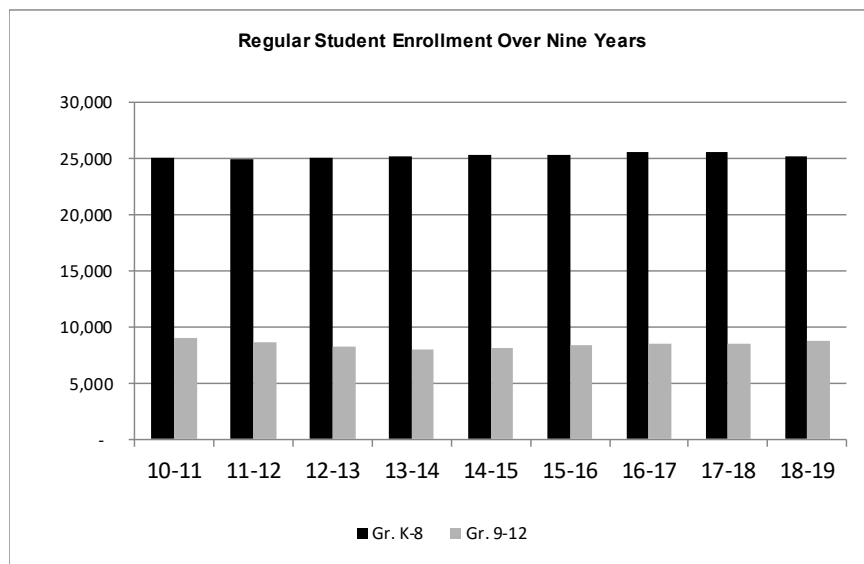
The critical assumptions used in preparing the District’s 2018-19 General Fund budget in more detail below.

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. At the end of the second attendance month of the 2018-19 school year, enrollment in District schools, including charter schools, totals 37,798. This is an increase of 130 students over the prior year and right at the projected enrollment total of 37,800 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 85% of the General Fund unrestricted expenditure budget, not including other financing sources and uses, toward salary and health benefit costs. The District controls salary costs in a number of ways, including monitoring and prioritizing the recruitment 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.

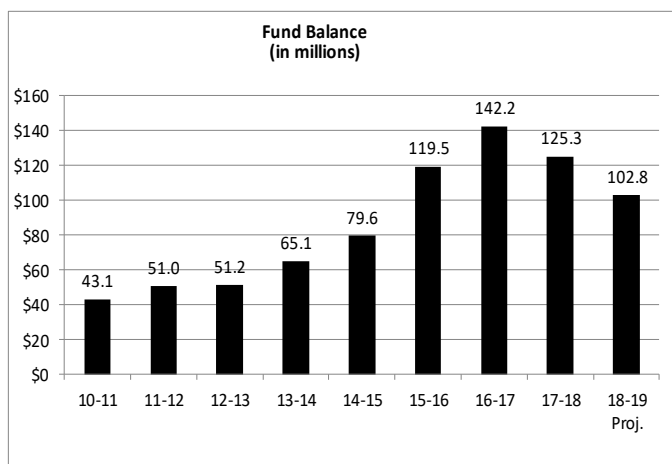
In addition, the District has to assume increases in expenses due to step and column changes. Stockton Unified is obligated to provide additional employee compensation for each bargaining unit contract which has additional experience (years worked) and/or additional education (post-secondary degree program) 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 2018-19 year is 1.246%.

Health Rates

The cost of health care is expected to increase over the next few years. The District continues to work with the employee bargaining groups to explore ways of maintaining acceptable levels of health care at affordable costs. One way is through the use of “soft caps” to control the health care costs borne by the District and by individual employees. A maximum amount, or cap, is established for what the District pays towards health care coverage. Individual employees are responsible for paying the difference. These amounts are periodically adjusted to recognize increases in health care rates. This allows for a sharing of cost increases and provides the opportunity to evaluate ways of reducing costs while maintaining coverage levels.

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 Stockton Unified 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 2018-19 year.

The graph above shows the history of the District’s General Fund balance, including the projected net ending fund balance for the 2018-19 year, which includes restricted balance estimates.

Conclusion

Stockton Unified School District faces the 2018-19 school year with confidence. Staff acknowledges that 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 prepared to meet the goal of providing an educational program that will empower 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, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 352,179,220
Receivables	19,714,811
Prepaid expenses	214,178
Stores inventory	947,071
Non-depreciable capital assets (Note 4)	74,323,914
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>536,071,550</u>
Total assets	<u>983,450,744</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 9 and 10)	128,563,638
Deferred outflows of resources - OPEB (Note 7)	5,612,502
Deferred loss from refunding of debt	<u>26,302,263</u>
Total deferred outflows	<u>160,478,403</u>
LIABILITIES	
Accounts payable	30,033,357
Claims liability, current (Note 5)	2,462,000
Unearned revenue	9,185,919
Long-term liabilities:	
Claims liability, less current portion (Note 5)	22,872,468
Due within one year (Note 6)	27,509,029
Due after one year (Note 6)	<u>963,127,632</u>
Total liabilities	<u>1,055,190,405</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 9 and 10)	<u>31,931,000</u>
NET POSITION	
Net investment in capital assets	298,235,200
Restricted:	
Legally restricted programs	38,420,825
Capital projects	15,521,974
Debt service	40,786,861
Self insurance	15,017,859
Unrestricted	<u>(351,174,977)</u>
Total net position	<u>\$ 56,807,742</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	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	\$ 306,217,030	\$ 1,288	\$ 64,026,974	\$ 836,868	\$ (241,351,900)
Instruction-related services:					
Supervision of instruction	34,078,897	180	12,077,049	-	(22,001,668)
Instructional library, media and technology	913,185	5	16,739	-	(896,441)
School site administration	30,645,906	31	1,968,622	-	(28,677,253)
Pupil services:					
Home-to-school transportation	12,980,080	-	26,367	-	(12,953,713)
Food services	19,533,598	107,455	16,150,025	-	(3,276,118)
All other pupil services	34,749,745	103	9,282,473	-	(25,467,169)
General administration:					
Data processing	5,084,603	-	-	-	(5,084,603)
All other general administration	18,499,404	3,312	1,807,143	-	(16,688,949)
Plant services	59,819,489	1,361	4,763,688	-	(55,054,440)
Ancillary services	1,414,517	-	86,844	-	(1,327,673)
Community services	2,484	-	-	-	(2,484)
Enterprise activities	28,423	-	-	-	(28,423)
Interest on long-term liabilities	14,007,872	-	-	-	(14,007,872)
Other outgo	634,195	6,340	9,156,933	-	8,529,078
	<u>\$ 538,609,428</u>	<u>\$ 120,075</u>	<u>\$ 119,362,857</u>	<u>\$ 836,868</u>	<u>(418,289,628)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					50,941,215
Taxes levied for debt service					28,151,340
Taxes levied for other specific purposes					2,039,012
Federal and state aid not restricted to specific purposes					327,220,719
Interest and investment earnings					3,183,422
Interagency revenues					1,879,707
Miscellaneous					5,946,299
					<u>419,361,714</u>
					<u>1,072,086</u>
					143,208,331
					<u>(87,472,675)</u>
					<u>55,735,656</u>
					<u>\$ 56,807,742</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund (01)	Building Fund (21)	Special Reserve for Capital Outlay Projects Fund (40)	All Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and investments:					
Cash in County Treasury	\$ 137,281,221	\$ 46,084,436	\$ -	\$ 62,942,578	\$ 246,308,235
Cash in County Treasury restricted for capital projects	-	-	51,219,410	-	51,219,410
Cash on hand and in banks	-	-	-	2,664	2,664
Cash in revolving fund	63,912	-	-	3,602	67,514
Cash with Fiscal Agent	1,663,641	-	-	11,942,767	13,606,408
Receivables	15,044,112	198,235	211,393	4,051,113	19,504,853
Prepaid expenditures	153,199	-	12,168	48,811	214,178
Due from other funds	3,751,068	-	11,510,123	2,228,363	17,489,554
Stores inventory	622,215	-	-	324,856	947,071
	<u>158,579,368</u>	<u>46,282,671</u>	<u>62,953,094</u>	<u>81,544,754</u>	<u>349,359,887</u>
Total assets	<u>\$ 158,579,368</u>	<u>\$ 46,282,671</u>	<u>\$ 62,953,094</u>	<u>\$ 81,544,754</u>	<u>\$ 349,359,887</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,505,654	\$ 6,338,696	\$ 144,283	\$ 3,964,473	\$ 22,953,106
Unearned revenue	7,049,389	-	2,041,289	95,241	9,185,919
Due to other funds	13,728,309	10,090	-	3,751,155	17,489,554
	<u>33,283,352</u>	<u>6,348,786</u>	<u>2,185,572</u>	<u>7,810,869</u>	<u>49,628,579</u>
Total liabilities	<u>33,283,352</u>	<u>6,348,786</u>	<u>2,185,572</u>	<u>7,810,869</u>	<u>49,628,579</u>
Fund balances:					
Nonspendable	839,325	-	-	377,269	1,216,594
Restricted	11,447,663	39,933,885	60,767,522	73,356,616	185,505,686
Assigned	103,757,992	-	-	-	103,757,992
Unassigned	9,251,036	-	-	-	9,251,036
	<u>125,296,016</u>	<u>39,933,885</u>	<u>60,767,522</u>	<u>73,733,885</u>	<u>299,731,308</u>
Total fund balances	<u>125,296,016</u>	<u>39,933,885</u>	<u>60,767,522</u>	<u>73,733,885</u>	<u>299,731,308</u>
Total liabilities and fund balances	<u>\$ 158,579,368</u>	<u>\$ 46,282,671</u>	<u>\$ 62,953,094</u>	<u>\$ 81,544,754</u>	<u>\$ 349,359,887</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total fund balances - Governmental Funds \$ 299,731,308

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 \$859,479,094 and the accumulated depreciation is \$249,083,630 (Note 4). 610,395,464

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, 2018 consisted of (Note 6):

General Obligation Bonds and premium	\$ (389,513,428)	
Accreted Interest	(26,908,569)	
Certificates of Participation and premium	(35,102,394)	
Qualified Zone Academy Bonds	(5,000,000)	
Net pension liability (Notes 9 and 10)	(408,589,000)	
Total OPEB liability (Note 7)	(122,983,677)	
Compensated absences	<u>(2,539,593)</u>	(990,636,661)

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. (6,247,631)

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. 26,302,263

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 the total OPEB liability to pensions are reported (Notes 7, 9 and 10).

Deferred outflows of resources relating to pensions	\$ 128,563,638	
Deferred outflows of resources relating to OPEB	5,612,502	
Deferred inflows of resources relating to pensions	<u>(31,931,000)</u>	102,245,140

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET POSITION
June 30, 2018

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.

\$ 15,017,859

Total net position - governmental activities

\$ 56,807,742

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, 2018

	General Fund (01)	Building Fund (21)	Special Reserve for Capital Outlay Projects Fund (40)	All Non-Major Funds	Total Governmental Funds	
Revenues:						
Local Control Funding Formula (LCFF):						
State apportionment		\$ 302,306,326	\$ -	\$ -	\$ 23,645,507	\$ 325,951,833
Local sources		<u>39,860,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,860,483</u>
Total LCFF		<u>342,166,809</u>	<u>-</u>	<u>-</u>	<u>23,645,507</u>	<u>365,812,316</u>
Federal sources		32,481,470	-	-	19,367,635	51,849,105
Other state sources		61,213,643	-	-	14,235,040	75,448,683
Other local sources		<u>8,864,552</u>	<u>913,832</u>	<u>686,127</u>	<u>32,977,896</u>	<u>43,442,407</u>
Total revenues		<u>444,726,474</u>	<u>913,832</u>	<u>686,127</u>	<u>90,226,078</u>	<u>536,552,511</u>
Expenditures:						
Current:						
Certificated salaries		179,805,198	-	-	14,477,959	194,283,157
Classified salaries		69,170,449	-	481,038	10,702,907	80,354,394
Employee benefits		122,665,791	-	230,304	12,642,320	135,538,415
Books and supplies		17,604,989	4,384	7,538	9,950,833	27,567,744
Contract services and operating expenditures		47,999,475	1,850,970	507,653	10,168,798	60,526,896
Other outgo		634,195	-	-	-	634,195
Capital outlay		11,460,378	16,536,926	916,142	5,947,572	34,861,018
Debt service:						
Principal retirement		-	-	-	16,475,000	16,475,000
Interest		<u>-</u>	<u>-</u>	<u>-</u>	<u>14,007,872</u>	<u>14,007,872</u>
Total expenditures		<u>449,340,475</u>	<u>18,392,280</u>	<u>2,142,675</u>	<u>94,373,261</u>	<u>564,248,691</u>
Deficiency of revenues under expenditures		<u>(4,614,001)</u>	<u>(17,478,448)</u>	<u>(1,456,548)</u>	<u>(4,147,183)</u>	<u>(27,696,180)</u>
Other financing sources (uses):						
Transfers in		1,840,419	-	12,338,289	3,729,744	17,908,452
Transfers out		(14,159,744)	-	-	(3,748,708)	(17,908,452)
Premium on the issuance of long-term liabilities		-	-	-	4,832,394	4,832,394
Proceeds from the issuance of debt		-	-	-	30,270,000	30,270,000
Deposit to refunding escrow		<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,015,000)</u>	<u>(32,015,000)</u>
Total other financing sources (uses)		<u>(12,319,325)</u>	<u>-</u>	<u>12,338,289</u>	<u>3,068,430</u>	<u>3,087,394</u>
Change in fund balances		(16,933,326)	(17,478,448)	10,881,741	(1,078,753)	(24,608,786)
Fund balances, July 1, 2017		<u>142,229,342</u>	<u>57,412,333</u>	<u>49,885,781</u>	<u>74,812,638</u>	<u>324,340,094</u>
Fund balances, June 30, 2018		<u>\$ 125,296,016</u>	<u>\$ 39,933,885</u>	<u>\$ 60,767,522</u>	<u>\$ 73,733,885</u>	<u>\$ 299,731,308</u>

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, 2018

Net change in fund balances - Total Governmental Funds	\$ (24,608,786)
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).	42,575,933
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(15,380,157)
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).	16,475,000
Proceeds from debt are recognized as other financing sources in the governmental funds, but increased the long-term liabilities in the statement of net position (Note 6).	(30,270,000)
Deposits in escrow for the principal payment 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).	32,015,000
In government funds, debt issued at a premium is recognized as other financing source. In government-wide statements, debt issued at a premium is amortized as interest over the life of the debt (Note 6).	(2,314,522)
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.	(1,421,785)
Accreted interest is an expense that is not recorded in the governmental funds (Note 6).	(4,900,057)
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.	345,431
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:	255,222

(Continued)

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, 2018

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 7).	\$ (6,405)
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 6, 9 and 10):	(11,788,912)
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).	<u>96,124</u>
Change in net position of governmental activities	<u>\$ 1,072,086</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2018

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 40,207,190
Cash with Fiscal Agent	767,270
Cash in Revolving Fund	529
Receivables	<u>209,958</u>
Total current assets	<u>41,184,947</u>

LIABILITIES

Accounts payable	832,620
Claims liability, current	<u>2,462,000</u>
Total current liabilities	3,294,620
Claims liability, less current portion	<u>22,872,468</u>
Total liabilities	<u>26,167,088</u>

NET POSITION

Unrestricted	<u><u>\$ 15,017,859</u></u>
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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, 2018

Operating revenues:	
Self-insurance premiums	\$ 19,924,159
Other local revenues	<u>8,161</u>
Total operating revenues	<u>19,932,320</u>
Operating expenses:	
Classified salaries	357,112
Employee benefits	184,074
Books and supplies	55,890
Contract services	<u>19,593,451</u>
Total operating expenses	<u>20,190,527</u>
Operating loss	(258,207)
Non-operating income:	
Interest income	<u>513,429</u>
Change in net position	255,222
Total net position, July 1, 2017	<u>14,762,637</u>
Total net position, June 30, 2018	<u><u>\$ 15,017,859</u></u>

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, 2018

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 19,924,159
Cash received from other local revenue	8,161
Cash paid for employee benefits	(2,455,018)
Cash paid for other expenses	<u>(12,400,643)</u>
Net cash provided by operating activities	<u>5,076,659</u>
Cash flows provided by investing activities:	
Interest income received	<u>513,429</u>
Increase in cash and investments	5,590,088
Cash and investments, July 1, 2017	<u>35,384,901</u>
Cash and investments, June 30, 2018	<u>\$ 40,974,989</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	<u>\$ (258,207)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Increase in:	
Receivables	(75,851)
Increase in:	
Accounts payable and claims liability	<u>5,410,717</u>
Total adjustments	<u>5,334,883</u>
Net cash provided by operating activities	<u>\$ 5,076,676</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 TRUST AND AGENCY FUNDS
 June 30, 2018

	<u>Trust Fund</u>	<u>Agency Fund</u>
	<u>Scholarship Trust</u>	<u>Student Body Funds</u>
ASSETS		
Cash on hand and in banks (Note 2)	\$ <u>754,958</u>	\$ <u>955,095</u>
LIABILITIES		
Due to student groups	<u>-</u>	\$ <u>955,095</u>
NET POSITION		
Restricted for scholarships	\$ <u>754,958</u>	

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2018

	Scholarship <u>Trust</u>
Additions:	
Contributions	\$ 54,165
Deductions:	
Contract services and operating expenditures	<u>76,918</u>
Change in net position	(22,753)
Net position, July 1, 2017	<u>777,711</u>
Net position, June 30, 2018	<u><u>\$ 754,958</u></u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

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 County Schools Facilities 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 and Debt Service Funds.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, property and general liability 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.

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

Accrual: 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.

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

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

Receivables: Receivables are made up principally of amounts due from the State of California. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2018.

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

Capital Assets: Capital assets purchased or acquired, with an original cost of \$50,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at 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)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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. Also, the District has recognized a deferred outflow of resources relate to recognition of the total OPEB liability and net pension liability reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position will sometimes report 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 net pension liability reported which is in the Statement of Net Position.

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. Certain investments are reported at fair value. The following is a summary of pension amounts in the aggregate:

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	<u>\$ 93,120,404</u>	<u>\$ 35,443,234</u>	<u>\$128,563,638</u>
Deferred inflows of resources	<u>\$ 28,663,000</u>	<u>\$ 3,268,000</u>	<u>\$ 31,931,000</u>
Net pension liability	<u>\$292,854,000</u>	<u>\$115,735,000</u>	<u>\$408,589,000</u>
Pension expense	<u>\$ 47,230,848</u>	<u>\$ 13,770,615</u>	<u>\$ 61,001,463</u>

Compensated Absences: Compensated absences totaling \$2,539,593 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)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018, the District had no committed fund balances.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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, 2018 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.

Fund Balance Policy: 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, 2018, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

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

Eliminations and Reclassifications: 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.

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements: In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions in GASB Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Based on the implementation of Statement No. 75, the District's July 1, 2017 governmental activities net position was restated decreasing net position by \$87,472,675 because of the recognition of the total OPEB liability and deferred outflows of resources.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2018 are reported at fair value and consisted of the following:

	Governmental Activities			Fiduciary Activities
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in County Treasury	\$246,308,235	\$ 40,207,190	\$286,515,425	\$ -
Cash in County Treasury - restricted for capital projects	51,219,410	-	51,219,410	-
Total pooled funds	297,527,645	40,207,190	337,734,835	-
Deposits:				
Cash on hand and in banks	2,664	-	2,664	1,710,053
Cash in revolving fund	67,514	529	68,043	-
Total deposits	70,178	529	70,707	1,710,053
Investments:				
Cash with Fiscal Agent	13,606,408	767,270	14,373,678	-
Total cash and investments	\$311,204,231	\$ 40,974,989	\$352,179,220	\$ 1,710,053

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, 2018, the carrying amount of the District's accounts was \$1,780,760 and the bank balance was \$1,833,279. The total uninsured bank balance at June 30, 2018 was \$1,583,279.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (Continued)

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.

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, 2018, 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, 2018, 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, 2018 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 3,751,068	\$ 13,728,309
Building	-	10,090
Special Reserve for Capital Outlay Projects	11,510,123	-
Non-Major Funds:		
Charter School	211,619	522,949
Adult Education	-	94,127
Child Development	16,744	1,903,106
Cafeteria	-	588,920
Deferred Maintenance	2,000,000	642,020
County Schools Facilities	-	33
Totals	<u>\$ 17,489,554</u>	<u>\$ 17,489,554</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 2017-2018 fiscal year were as follows:

Transfer from the General Fund to the Cafeteria Fund for food services.	\$ 1,639,297
Transfer from the General Fund to the Special Reserve for Capital Outlay Projects Fund for school facilities administrative projects.	8,000,000
Transfer from the General Fund to the Special Reserve for Capital Outlay Projects Fund for GSA facilities.	3,500,000
Transfer from the General Fund to the Charter School Fund for program support.	20,447
Transfer from the General Fund to the Capital Facilities Fund to pay 2007 COPS.	1,000,000
Transfer from the Charter School Fund to the General Fund for loan repayment.	252,286
Transfer from the Adult Education Fund to the General Fund for indirect costs.	94,011
Transfer from the Child Development Fund to the General Fund for indirect costs.	264,621
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	587,481
Transfer from the Deferred Maintenance Fund to the General Fund for the RRM expenditures.	642,020
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Projects Fund for Van Buren ES project.	700,708
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Projects Fund for the Nightingale ES project.	136,160
Transfer from the County School Facilities to the Special Reserve for Capital Outlay Project Fund for Measure Q interest.	1,421
Transfer from the the Bond Interest and Redemption Fund to the Debt Service Fund related to sinking fund deposit.	<u>1,070,000</u>
	<u>\$ 17,908,452</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2018 is shown below:

	Balance July 1, <u>2017</u>	<u>Additions</u>	Transfers and <u>Deductions</u>	Balance June 30, <u>2018</u>
Governmental Activities				
Non-depreciable:				
Land	\$ 25,735,353	\$ -	\$ 10,345,644	\$ 36,080,997
Work-in-process	68,732,913	41,720,638	(72,210,634)	38,242,917
Depreciable:				
Buildings	692,423,112	-	60,340,088	752,763,200
Site improvements	10,511,757	-	1,503,211	12,014,968
Equipment	<u>19,500,026</u>	<u>855,295</u>	<u>21,691</u>	<u>20,377,012</u>
Totals, at cost	<u>816,903,161</u>	<u>42,575,933</u>	<u>-</u>	<u>859,479,094</u>
Less accumulated depreciation:				
Buildings	(211,671,423)	(13,963,960)	-	(225,635,383)
Site improvements	(5,257,280)	(404,450)	-	(5,661,730)
Equipment	<u>(16,774,770)</u>	<u>(1,011,747)</u>	<u>-</u>	<u>(17,786,517)</u>
Total accumulated depreciation	<u>(233,703,473)</u>	<u>(15,380,157)</u>	<u>-</u>	<u>(249,083,630)</u>
Capital assets, net	<u>\$ 583,199,688</u>	<u>\$ 27,195,776</u>	<u>\$ -</u>	<u>\$ 610,395,464</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 14,303,986
Home-to-School Transportation	849,825
Food Services	53,081
All Other General Administration	81,609
Centralized Data Processing	51,026
Plant services	<u>40,630</u>
Total depreciation expense	<u>\$ 15,380,157</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

	June 30, <u>2017</u>	June 30, <u>2018</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 19,828,000	\$ 19,923,752
Total incurred claims and claim adjustment expenses	2,864,156	9,337,529
Total payments	<u>(2,768,404)</u>	<u>(3,926,813)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 19,923,752</u>	<u>\$ 25,334,468</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES

General Obligation Bonds

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 351,276	\$ 351,276
2020	-	351,276	351,276
2021	-	351,276	351,276
2022	-	351,276	351,276
2023	-	351,276	351,276
2024-2026	<u>16,040,000</u>	<u>702,552</u>	<u>16,742,552</u>
	<u>\$ 16,040,000</u>	<u>\$ 2,458,932</u>	<u>\$ 18,498,932</u>

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,210,000	579,051	1,789,051
2023	1,225,000	498,331	1,723,331
2024-2028	<u>6,465,000</u>	<u>1,160,942</u>	<u>7,625,942</u>
	<u>\$ 12,245,000</u>	<u>\$ 4,414,927</u>	<u>\$ 16,659,927</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024-2028	\$ 5,020,278	\$ 10,604,957	\$ 15,625,235
2029-2033	2,256,613	33,375,737	35,632,350
2034-2038	8,330,807	66,726,543	75,057,350
2039-2043	4,374,278	60,513,072	64,887,350
2044-2048	9,208,880	59,583,510	68,792,390
2049-2051	<u>14,431,507</u>	<u>41,001,718</u>	<u>55,433,225</u>
	<u>\$ 43,622,363</u>	<u>\$ 271,805,537</u>	<u>\$ 315,427,900</u>

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 2,280,000	\$ 267,450	\$ 2,547,450
2020	2,360,000	176,250	2,536,250
2021	<u>1,165,000</u>	<u>58,250</u>	<u>1,223,250</u>
	<u>\$ 5,805,000</u>	<u>\$ 501,950</u>	<u>\$ 6,306,950</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,655,000	1,428,000	5,083,000
2023	3,840,000	1,245,250	5,085,250
2024-2028	19,265,000	3,219,000	22,484,000
2029	<u>1,800,000</u>	<u>45,000</u>	<u>1,845,000</u>
	<u>\$ 33,195,000</u>	<u>\$ 10,750,500</u>	<u>\$ 43,945,500</u>

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 2,794,131	\$ 2,794,131
2020	-	2,794,131	2,794,131
2021	260,000	2,787,631	3,047,631
2022	380,000	2,771,631	3,151,631
2023	510,000	2,749,381	3,259,381
2024-2028	4,870,000	13,158,656	18,028,656
2029-2033	9,860,000	11,495,378	21,355,378
2034-2038	16,575,000	8,646,975	25,221,975
2039-2043	<u>26,330,000</u>	<u>3,441,326</u>	<u>29,771,326</u>
	<u>\$ 58,785,000</u>	<u>\$ 50,639,240</u>	<u>\$ 109,424,240</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 1,594,275	\$ 1,594,275
2020	-	1,594,275	1,594,275
2021	510,000	1,584,075	2,094,075
2022	595,000	1,561,975	2,156,975
2023	685,000	1,536,375	2,221,375
2024-2028	5,045,000	7,042,250	12,087,250
2029-2033	8,585,000	5,361,500	13,946,500
2034-2038	13,340,000	2,795,800	16,135,800
2039-2040	<u>6,860,000</u>	<u>279,200</u>	<u>7,139,200</u>
	<u>\$ 35,620,000</u>	<u>\$ 23,349,725</u>	<u>\$ 58,969,725</u>

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 530,000	\$ 18,962	\$ 548,962
2020	<u>600,000</u>	<u>6,990</u>	<u>606,990</u>
	<u>\$ 1,130,000</u>	<u>\$ 25,952</u>	<u>\$ 1,155,952</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 440,000	\$ 935,213	\$ 1,375,213
2020	575,000	913,213	1,488,213
2021	460,000	884,463	1,344,463
2022	530,000	861,463	1,391,463
2023	570,000	834,963	1,404,963
2024-2028	3,730,000	3,689,563	7,419,563
2029-2033	5,445,000	2,794,456	8,239,456
2034-2038	7,525,000	1,792,756	9,317,756
2039-2041	<u>5,640,000</u>	<u>401,800</u>	<u>6,041,800</u>
	<u>\$ 24,915,000</u>	<u>\$ 13,107,890</u>	<u>\$ 38,022,890</u>

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	<u>\$ 3,260,000</u>	<u>\$ 163,000</u>	<u>\$ 3,423,000</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	6,320,000	5,188,200	11,508,200
2023	6,650,000	4,863,950	11,513,950
2024-2028	41,050,000	18,619,500	59,669,500
2029-2033	<u>54,460,000</u>	<u>6,298,150</u>	<u>60,758,150</u>
	<u>\$ 125,040,000</u>	<u>\$ 52,171,125</u>	<u>\$ 177,211,125</u>

At June 30, 2018, \$146,305,000 of bonds outstanding are considered defeased.

Certificates of Participation (COPs): In February 2018, the District issued Certificates of Participation in the amount of \$30,270,000 with interest rates from 4.00% to 5.00%, maturing on February 1, 2036. The proceeds of 2018 Certificates were used to provide funds to refund the 2007 Certificates.

Scheduled payments for the COPs are as follows:

Year Ending <u>June 30,</u>	<u>COPs Payments</u>
2019	\$ 2,617,350
2020	2,617,750
2021	2,614,750
2022	2,619,000
2023	2,615,000
2024-2028	13,075,250
2029-2033	13,090,250
2034-2036	<u>7,061,750</u>
Total payments	46,311,100
Less amount representing interest	<u>(16,041,100)</u>
Net present value of minimum payments	<u>\$ 30,270,000</u>

Although the advance refundings resulted in the recognition of an accounting gain of \$12,212 for the year ended June 30, 2018, the District in effect decreased its aggregate debt service payments by \$833,264 over the next 18 years and obtained an economic gain of \$3,132,216.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Calculation of Difference in Cash Flow Requirements and Economic Gain

Old debt service cash flows	\$ 47,144,364
New debt service cash flows	<u>46,311,100</u>
Total cash flow difference	<u><u>\$ 833,264</u></u>
Present value of old debt service cash flows	\$ 36,796,408
Present value of new debt service cash flows	<u>33,664,192</u>
Economic gain	<u><u>\$ 3,132,216</u></u>

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. The certificate of deposit together with the interest earnings repaid the Bonds which matured in November 2018.

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017 as Restated	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 374,992,363	\$ -	\$ 15,335,000	\$ 359,657,363	\$ 13,765,000
General Obligation Bonds Premium	32,260,157	-	2,404,092	29,856,065	2,189,395
Accreted interest	22,008,512	4,900,057	-	26,908,569	5,266,657
Certificates of Participation	33,155,000	30,270,000	33,155,000	30,270,000	1,115,000
Certificates of Participation Premium	113,780	4,832,394	113,780	4,832,394	172,977
Qualified Zone Academy Bonds	5,000,000	-	-	5,000,000	5,000,000
Net pension liability (Notes 9 and 10)	361,610,000	46,979,000	-	408,589,000	-
Total OPEB liability (Note 7)	117,364,770	10,548,843	4,929,936	122,983,677	-
Compensated absences	<u>2,635,717</u>	<u>-</u>	<u>96,124</u>	<u>2,539,593</u>	<u>-</u>
	<u>\$ 949,140,299</u>	<u>\$ 97,530,294</u>	<u>\$ 56,033,932</u>	<u>\$ 990,636,661</u>	<u>\$ 27,509,029</u>

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 Qualified Zone Academy Bonds are made from the Debt Service Fund. Payments on total OPEB liability, net pension liability and compensated absences are made from the fund for which the related employee worked.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

General Information Other Postemployment Benefits Plan (OPEB)

Plan Description: In addition to the pension benefits described in Notes 9 and 10, 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. 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 Stockton Unified School District's Retiree Health Care Plan (Plan) is a single-employer defined benefit postemployment health care plan that covers eligible retired employees of the District. The Plan, which is administered by the District, allows employees who retire and meet retirement eligibility requirements under the District's retirement plan to continue medical, dental and vision coverage as a participant in the District's plan. The District's Governing Board has the authority to establish or amend the benefit terms offered by the Plan. The District's Governing Board also retains the authority to establish the requirements for paying the Plan benefits as they come due. As of June 30, 2018 the District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District's Total OPEB Liability.

Employees Covered by Benefit Terms: The following is a table of plan participants at June 30, 2018:

	<u>Number of Participants</u>
Inactive Plan members, covered spouses, or beneficiaries currently receiving benefits	707
Inactive employees/dependents entitled to but not yet receiving benefits	-
Active employees	<u>4,973</u>
	<u><u>5,680</u></u>

Benefits Provided: The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are also eligible for medical coverage. All employees of the District are eligible to receive postemployment health care benefits.

Contributions: California Government Code specifies that the District's contribution requirements for covered employees are established and may be amended by the Governing Board. Retirees participating in the group insurance plans offered by the District are required to contribute 100% of the active premiums. In future years, contributions are assumed to increase at the same rate as premiums. The District's premium rates being charged to these retirees are lower than the expected cost for a retiree population under age 65. Thus, an implicit subsidy exists as a result of this difference between the actual cost and the true retiree cost.

Contributions to the Plan from the District were \$5,612,502 for the year ended June 30, 2018. Employees are not required to contribute to the OPEB plan.

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Assumptions: The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Valuation Date</u>	July 1, 2017																				
<u>Measurement Date</u>	June 30, 2017																				
<u>Fiscal Year End</u>	June 30, 2018																				
<u>Pre-Retirement Mortality Rate</u>	RP - 2014 Employee Mortality																				
<u>Post-Retirement Mortality Rate</u>	RP - 2014 Health Annuitant Mortality																				
<u>Discount Rate as of June 30, 2017</u>	3.6%. Based on the June 29, 2017 Bond Buyer 20-Bond Index, as published by the Federal Reserve.																				
<u>Retirement Rate</u>	Retirement rates march rates developed in the most recent experience studies for California PERS (2014) and California STRS (2010)																				
<u>Inflation Rate</u>	2.25% per year																				
<u>Salary Increases</u>	3.00% per year																				
<u>Dependent Coverage</u>	Future retirees: 28%, with male spouses assumed 3 years older than female spouses. For current retirees actual spousal ages were used. Family coverage assumed to continue for the lesser of 5 years or until age 65. 10% of future married retirees assumed to have covered children.																				
<u>Medicare Coverage</u>	All current and future participating retirees and spouses will qualify for Medicare coverage and enroll in Parts A and B upon age 65.																				
<u>Health Care Inflation</u>	Healthcare costs were assumed to increase according to the following schedule:																				
	<table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>FYB</u></th> <th style="text-align: left;"><u>Medical/Rx</u></th> <th style="text-align: left;"><u>Dental/Vision</u></th> <th style="text-align: left;"><u>CPI</u></th> </tr> </thead> <tbody> <tr> <td>2017</td> <td>8.00%</td> <td>4.00%</td> <td>3.50%</td> </tr> <tr> <td>2018</td> <td>7.00</td> <td>4.00</td> <td>3.50</td> </tr> <tr> <td>2019</td> <td>6.00</td> <td>4.00</td> <td>3.50</td> </tr> <tr> <td>2020+</td> <td>5.00</td> <td>4.00</td> <td>3.50</td> </tr> </tbody> </table>	<u>FYB</u>	<u>Medical/Rx</u>	<u>Dental/Vision</u>	<u>CPI</u>	2017	8.00%	4.00%	3.50%	2018	7.00	4.00	3.50	2019	6.00	4.00	3.50	2020+	5.00	4.00	3.50
<u>FYB</u>	<u>Medical/Rx</u>	<u>Dental/Vision</u>	<u>CPI</u>																		
2017	8.00%	4.00%	3.50%																		
2018	7.00	4.00	3.50																		
2019	6.00	4.00	3.50																		
2020+	5.00	4.00	3.50																		
<u>Funding Method</u>	Entry Age Cost Method (Level Percentage of Pay).																				

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate: Given the District's decision not to fund the program, all future benefit payments were discounted using a high quality municipal bond rate of 3.60%. The municipal bond rate was based on the week closest but not later than the measurement date of the June 30, 2017 index as published by the Federal Reserve. The June 30, 2017 index consists of 11 general obligation bonds that mature in 20 years. The average rating of the 11 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2017	\$ 117,364,770
Changes for the year:	
Service cost	6,189,624
Interest	4,359,219
Benefit payments	(4,929,936)
Net change	5,618,907
Balance at June 30, 2018	\$ 122,983,677

There were no changes between the measurement date and the year ended June 30, 2018 which had a significant effect on the District's total OPEB liability.

Sensitivity of the Total OPEB Liability to changes in the Discount Rate: The following presents the Total OPEB Liability of the District, as well as what the District's Total OPEB Liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

	1% Decrease (2.60%)	Current Discount Rate (3.60%)	1% Increase (4.60%)
Total OPEB liability	\$139,597,903	\$ 122,983,677	\$ 109,198,288

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sensitivity of the Total OPEB Liability to changes in the Healthcare Cost Trend Rates: The following presents the Total OPEB Liability of the District, as well as what the District's Total OPEB Liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (7.00 – 4.00%)	Healthcare Cost Trend Rates Rate (8.00 – 5.00%)	1% Increase (9.00 – 6.00 %)
Total OPEB Liability	<u>\$118,805,670</u>	<u>\$122,983,677</u>	<u>\$127,360,566</u>

OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$10,548,843. At June 30, 2018 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	\$ -	\$ -
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
Benefits paid subsequent to measurement date	<u>5,612,502</u>	<u>-</u>
Total	<u>\$ 5,612,502</u>	<u>\$ -</u>

\$5,612,502 reported as deferred outflows of resources related to benefits paid subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 8 - FUND BALANCE

Fund balances, by category, at June 30, 2018 consisted of the following:

	General Fund	Building Fund	Special Reserve for Capital Outlay Projects Fund	Non-Major Funds	Total
Nonspendable:					
Revolving cash fund	\$ 63,912	\$ -	\$ -	\$ 3,602	\$ 67,514
Prepaid expenditures	153,198	-	-	48,811	202,009
Stores inventory	<u>622,215</u>	<u>-</u>	<u>-</u>	<u>324,856</u>	<u>947,071</u>
Subtotal nonspendable	<u>839,325</u>	<u>-</u>	<u>-</u>	<u>377,269</u>	<u>1,216,594</u>
Restricted:					
Charter schools	-	-	-	13,940,395	13,940,395
Cafeteria	-	-	-	6,752,597	6,752,597
Maintenance	-	-	-	4,163,345	4,163,345
Other legally restricted programs	11,447,663	-	-	1,739,556	13,187,219
Capital projects	-	39,933,885	60,767,522	5,973,862	106,675,269
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,786,861</u>	<u>40,786,861</u>
Subtotal restricted	<u>11,447,663</u>	<u>39,933,885</u>	<u>60,767,522</u>	<u>73,356,616</u>	<u>185,505,686</u>
Assigned:					
Economic forecast	36,884,732	-	-	-	36,884,732
One month payroll	29,800,000	-	-	-	29,800,000
Operational initiatives	6,000,000	-	-	-	6,000,000
One time - 16/17 S&C carryover	6,323,916	-	-	-	6,323,916
One time - mandated costs	18,699,885	-	-	-	18,699,885
One time - lottery	<u>6,049,459</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,049,459</u>
Subtotal assigned	<u>103,757,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,757,992</u>
Unassigned:					
Designated for economic uncertainty	<u>9,251,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,251,036</u>
Total fund balances	<u>\$ 125,296,016</u>	<u>\$ 39,933,885</u>	<u>\$ 60,767,522</u>	<u>\$ 73,733,885</u>	<u>\$ 299,731,308</u>

(Continued)

NOTE 9 – 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 (DB) 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.

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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

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 10.25 percent of applicable member earnings for fiscal year 2017-18. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 9.205 percent of applicable member earnings for fiscal year 2017-18.

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.

According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2017, valuation adopted by the board in May 2018, the increase in normal cost was greater than 1 percent. Therefore, contribution rates for CalSTRS 2% at 62 members will increase by 1 percent effective July 1, 2018.

Employers – 14.43 percent of applicable member earnings.

Pursuant to AB 1469, employer contributions will increase from a prior rate of 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The legislation also gives the CalSTRS 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 CalSTRS 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.

The CalSTRS employer contribution rate increases effective for fiscal year 2017-18 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
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, 2021 to June 30, 2046	8.25%	*	*
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

*The Teachers' Retirement Board (the "board") cannot adjust the employer rate by more than 1 percent in a fiscal year, and the increase to the contribution rate above the 8.25 percent base contribution rate cannot exceed 12 percent for a maximum of 20.25 percent.

The District contributed \$27,039,404 to the plan for the fiscal year ended June 30, 2018.

State - 9.328 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Also as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046. The CalSTRS state contribution rates effective for fiscal year 2017-18 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 5.311 percent on July 1, 2018, to continue paying down the unfunded liabilities associated with the benefits structure that was in place in 1990 prior to certain enhancements in benefits and reductions in contributions.

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding (1)</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2018	2.017%	5.311%(2)	2.50%	9.828%
July 01, 2019 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(4)	2.50%	4.517%(3)

(1) This rate does not include the \$72 million reduction in accordance with Education Code Section 22954.

(2) In May 2018 the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2018.

(3) The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 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 would be reduced to 0 percent.

(4) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation.

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

At June 30, 2018, 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	\$ 292,854,000
State's proportionate share of the net pension liability associated with the District	<u>173,251,000</u>
Total	<u><u>\$ 466,105,000</u></u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2017, the District’s proportion was 0.317 percent, which was an decrease of 0.010 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$47,230,848 and revenue of \$17,217,912 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,083,000	\$ 5,108,000
Changes of assumptions	54,255,000	-
Net differences between projected and actual earnings on investments	-	7,800,000
Changes in proportion and differences between District contributions and proportionate share of contributions	10,743,000	15,755,000
Contributions made subsequent to measurement date	<u>27,039,404</u>	<u>-</u>
Total	<u>\$ 93,120,404</u>	<u>\$ 28,663,000</u>

\$27,039,404 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, 2019. 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 <u>June 30,</u>	
2019	\$ 1,065,767
2020	12,457,767
2021	8,258,766
2022	621,100
2023	8,308,100
2024	6,706,500

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)

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, 2017 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 STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

During the 2016-17 measurement period, CalSTRS completed an experience study for the period starting July 1, 2010, and ending June 30, 2015. The experience study was adopted by the board in February 2017. As a result of the study, certain assumptions used in determining the NPL of the STRP changed, including the price inflation, wage growth, discount rate and the mortality tables used in the actuarial valuation of the NPL. The changes to the assumptions as a result of the experience study follow:

<u>Assumption</u>	<u>Measurement period</u>	
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>
Consumer price inflation	2.75%	3.00%
Investment rate of return	7.10%	7.60%
Wage growth	3.50%	3.75%

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (Continued)

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. The actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	6.30%
Private Equity	13	9.30
Real Estate	13	5.20
Inflation Sensitive	4	3.80
Fixed Income	12	0.30
Absolute Return/Risk Mitigating Strategies	9	2.90
Cash / Liquidity	2	(1.00)

* 20-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.10 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 AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS’ RETIREMENT PLAN (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 7.10 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 (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease <u>(6.10%)</u>	Current Discount Rate <u>(7.10%)</u>	1% Increase <u>(8.10%)</u>
District’s proportionate share of the net pension liability	<u>\$430,002,000</u>	<u>\$292,854,000</u>	<u>\$181,548,000</u>

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 10 – 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-2017.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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 10 – 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 districts first join PERF B, 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, 2018 were as follows:

Members - The member contribution rate was 6.50 or 7.50 percent of applicable member earnings for fiscal year 2017-18.

Employers - The employer contribution rate was 15.531 percent of applicable member earnings.

The District contributed \$7,914,234 to the plan for the fiscal year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$115,735,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. 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, 2017, the District’s proportion was 0.463 percent, which was a decrease of 0.011 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$13,770,615. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,984,000	\$ 6,000
Changes of assumptions	16,491,000	1,328,000
Net differences between projected and actual earnings on investments	3,899,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	3,155,000	1,934,000
Contributions made subsequent to measurement date	<u>7,914,234</u>	<u>-</u>
Total	<u>\$ 35,443,234</u>	<u>\$ 3,268,000</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 10 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)

\$7,914,234 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, 2019. 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 <u>June 30,</u>		
2019	\$	5,767,833
2020		12,065,833
2021		8,567,833
2022		(2,140,499)

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, 2017 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, 2016, and rolling forward the total pension liability to June 30, 2016, and assumptions, applied to all prior periods included in the measurement.

Valuation Date	June 30, 2016
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
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, 2016 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.

During the 2016-17 measurement period, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 10 – 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.

<u>Asset Class</u>	<u>Long -Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return Years of 1 - 10 (1)</u>	<u>Expected Real Rate of Return Years of 11+ (2)</u>
Global Equity	47%	4.90%	5.38%
Fixed Income	19	0.80	2.27
Inflation of Assets	6	0.60	1.39
Private Equity	12	6.60	6.63
Real Estate	11	2.80	5.21
Infrastructure & Forestland	3	3.90	5.36
Liquidity	2	(0.40)	(0.90)

* 10-year geometric average

(1) An expected inflation rate of 2.50% used for this period

(2) An expected inflation rate of 3.00% used for this period

Discount Rate: The discount rate used to measure the total pension liability was 7.15 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 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 rounded 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 adjusted to account for assumed administrative expenses.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2018

NOTE 10 – 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 7.15 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 (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease <u>(6.15%)</u>	Current Discount Rate <u>(7.15%)</u>	1% Increase <u>(8.15%)</u>
District’s proportionate share of the net pension liability	<u>\$ 166,391,000</u>	<u>\$ 115,735,000</u>	<u>\$ 69,001,000</u>

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 11 – 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 (NCRReLiEF) for the operation of a common risk management and insurance program. NCRReLiEF is governed by a board consisting of representatives of member districts. The board controls the operations of NCRReLiEF, including the selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. 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 NCRReLiEF for the year ended June 30, 2016 (the latest information available) is as follows:

Total assets	\$ 68,292,756
Total liabilities	\$ 52,527,059
Total net position	\$ 15,765,697
Total revenues	\$ 52,504,353
Total expenditures	\$ 43,938,040
Change in net position	\$ 8,566,313

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)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 12 – CONTINGENCIES

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

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

Construction Commitments: At June 30, 2018, the District had approximately \$58 million in outstanding commitments on construction contracts.

NOTE 13 - SUBSEQUENT EVENTS

In October 2018, the District issued \$9,760,000 and \$61,000,000, related to the 2014 Series B (ED-Tech) and 2012 Series C General Obligation Bonds, with interest rates between 4.00% - 5.00% and 3.75 % - 5.00%, maturing in August 2021 and August 2043.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

	<u>Budget</u>		<u>Actual</u>	<u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 307,309,318	\$ 304,637,384	\$ 302,306,326	\$ (2,331,058)
Local sources	<u>37,537,264</u>	<u>39,979,178</u>	<u>39,860,483</u>	<u>(118,695)</u>
Total LCFF	<u>344,846,582</u>	<u>344,616,562</u>	<u>342,166,809</u>	<u>(2,449,753)</u>
Federal sources	41,204,959	62,875,246	32,481,470	(30,393,776)
Other state sources	53,184,605	62,680,115	61,213,643	(1,466,472)
Other local sources	<u>5,004,090</u>	<u>7,598,472</u>	<u>8,864,552</u>	<u>1,266,080</u>
Total revenues	<u>444,240,236</u>	<u>477,770,395</u>	<u>444,726,474</u>	<u>(33,043,921)</u>
Expenditures:				
Current:				
Certificated salaries	182,939,063	188,190,511	179,805,198	8,385,313
Classified salaries	66,383,916	70,024,884	69,170,449	854,435
Employee benefits	119,786,698	126,612,146	122,665,791	3,946,355
Books and supplies	32,360,169	57,542,947	17,604,989	39,937,958
Contract services and operating expenditures	40,931,809	56,755,344	47,999,475	8,755,869
Other outgo	716,158	717,451	634,195	83,256
Capital outlay	<u>972,565</u>	<u>13,574,423</u>	<u>11,460,378</u>	<u>2,114,045</u>
Total expenditures	<u>444,090,378</u>	<u>513,417,706</u>	<u>449,340,475</u>	<u>64,077,231</u>
Excess (deficiency) of revenues over (under) expenditures	<u>149,858</u>	<u>(35,647,311)</u>	<u>(4,614,001)</u>	<u>31,033,310</u>
Other financing sources (uses):				
Transfers in	325,000	694,647	1,840,419	1,145,772
Transfers out	<u>(12,500,000)</u>	<u>(14,139,298)</u>	<u>(14,159,744)</u>	<u>(20,446)</u>
Total other financing (uses)	<u>(12,175,000)</u>	<u>(13,444,651)</u>	<u>(12,319,325)</u>	<u>1,125,326</u>
Change in fund balance	(12,025,142)	(49,091,962)	(16,933,326)	32,158,636
Fund balance, July 1, 2017	<u>142,229,342</u>	<u>142,229,342</u>	<u>142,229,342</u>	<u>-</u>
Fund balance, June 30, 2018	<u>\$ 130,204,200</u>	<u>\$ 93,137,380</u>	<u>\$ 125,296,016</u>	<u>\$ 32,158,636</u>

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
For the Year Ended June 30, 2018

Last 10 Fiscal Years

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 6,189,624
Interest	4,359,219
Benefit payments	<u>(4,929,936)</u>
Net change in total OPEB liability	5,618,907
Total OPEB liability - beginning of year	<u>117,364,770</u>
Total OPEB liability - end of year	<u>\$ 122,983,677</u>
Covered employee payroll	\$ 250,000,000
Total OPEB liability as a percentage of covered-employee payroll	49.20%

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

All years prior to 2018 are not available.

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

State Teachers' Retirement Plan
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.325%	0.320%	0.327%	0.317%
District's proportionate share of the net pension liability	\$189,746,000	\$215,767,000	\$264,825,000	\$292,854,000
State's proportionate share of the net pension liability associated with the District	<u>114,578,000</u>	<u>114,117,000</u>	<u>150,775,000</u>	<u>173,251,000</u>
Total net pension liability	<u>\$304,324,000</u>	<u>\$329,884,000</u>	<u>\$415,600,000</u>	<u>\$466,105,000</u>
District's covered payroll	\$144,623,000	\$148,755,000	\$163,180,000	\$179,689,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%	162.98%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%

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)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 For the Year Ended June 30, 2018

Public Employer's Retirement Fund B
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability	0.503%	0.493%	0.474%	0.463%
District's proportionate share of the net pension liability	\$ 59,175,446	\$ 78,908,000	\$ 96,785,000	\$115,735,000
District's covered payroll	\$ 54,130,000	\$ 59,697,000	\$ 59,198,000	\$ 61,741,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	109.32%	132.18%	163.49%	187.45%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%	71.87%

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.

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 For the Year Ended June 30, 2018

State Teachers' Retirement Plan
 Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 13,209,402	\$ 17,509,201	\$ 22,604,934	\$ 27,039,404
Contributions in relation to the contractually required contribution	<u>(13,209,402)</u>	<u>(17,509,201)</u>	<u>(22,604,934)</u>	<u>(27,039,404)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$148,755,000	\$163,180,000	\$179,689,000	\$187,383,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43%

All years prior to 2015 are not available.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2018

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 7,026,907	\$ 7,013,119	\$ 8,820,816	\$ 7,914,234
Contributions in relation to the contractually required contribution	<u>(7,026,907)</u>	<u>(7,013,119)</u>	<u>(8,820,816)</u>	<u>(7,914,234)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 59,697,000	\$ 59,198,000	\$ 61,741,000	\$ 48,530,000
Contributions as a percentage of covered payroll	11.77%	11.85%	14.29%	15.53%

All years prior to 2015 are not available.

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2018

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 Changes in the Total Liability

The Schedule of Changes in Total OPEB liability is presented to illustrate the elements of the District's Net OPEB 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. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

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, 7.65, 7.65 and 7.15 percent in the June 30, 2013, 2014, 2015, and 2016 actuarial reports, respectively.

The following are the assumptions for State Teachers' Retirement Plan:

<u>Assumptions</u>	<u>Measurement Period</u>		
	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>	As of June 30, <u>2015</u>
Consumer price inflation	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.60%	7.60%
Wage growth	3.50%	3.75%	3.75%

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS
 June 30, 2018

	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)	County Schools Facilities Fund (35)	Bond Interest and Redemption Fund (51)	Debt Service Fund (56)	Total
ASSETS										
Cash in County Treasury	\$ 14,613,462	\$ 1,535,354	\$ 720,923	\$ 5,854,620	\$ 4,140,373	\$ 5,988,114	\$ -	\$ 28,498,456	\$ 1,591,276	\$ 62,942,578
Cash on hand and in banks	-	2,000	-	664	-	-	-	-	-	2,664
Cash in revolving fund	582	520	-	2,500	-	-	-	-	-	3,602
Cash with Fiscal Agent	-	-	-	-	-	-	-	-	11,942,767	11,942,767
Receivables	431,943	234,292	1,315,707	2,030,964	18,400	19,774	33	-	-	4,051,113
Store inventory	-	-	-	324,856	-	-	-	-	-	324,856
Due from other funds	211,619	-	16,744	-	2,000,000	-	-	-	-	2,228,363
Prepaid expenditures	31,811	-	-	17,000	-	-	-	-	-	48,811
Total assets	\$ 15,289,417	\$ 1,772,166	\$ 2,053,374	\$ 8,230,604	\$ 6,158,773	\$ 6,007,888	\$ 33	\$ 28,498,456	\$ 13,534,043	\$ 81,544,754
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 699,411	\$ 55,588	\$ 31,671	\$ 544,731	\$ 1,353,408	\$ 34,026	\$ -	\$ 1,245,638	\$ -	\$ 3,964,473
Unearned revenue	94,269	-	972	-	-	-	-	-	-	95,241
Due to other funds	522,949	94,127	1,903,106	588,920	642,020	-	33	-	-	3,751,155
Total liabilities	1,316,629	149,715	1,935,749	1,133,651	1,995,428	34,026	33	1,245,638	-	7,810,869
Fund balances:										
Nonspendable	32,393	520	-	344,356	-	-	-	-	-	377,269
Restricted	13,940,395	1,621,931	117,625	6,752,597	4,163,345	5,973,862	-	27,252,818	13,534,043	73,356,616
Total fund balances	13,972,788	1,622,451	117,625	7,096,953	4,163,345	5,973,862	-	27,252,818	13,534,043	73,733,885
Total liabilities and fund balances	\$ 15,289,417	\$ 1,772,166	\$ 2,053,374	\$ 8,230,604	\$ 6,158,773	\$ 6,007,888	\$ 33	\$ 28,498,456	\$ 13,534,043	\$ 81,544,754

STOCKTON UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
 ALL NON-MAJOR FUNDS
 For the Year Ended June 30, 2018

	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)	County School Facilities Fund (35)	Bond Interest and Redemption Fund (51)	Debt Service Fund (56)	Total
Revenues:										
State apportionment	\$ 21,645,507	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ 23,645,507
Federal sources	-	896,692	2,883,276	15,587,667	-	-	-	-	-	19,367,635
Other state sources	2,560,881	3,143,962	6,331,147	1,086,252	-	-	836,868	275,930	-	14,235,040
Other local sources	<u>221,072</u>	<u>57,573</u>	<u>9,468</u>	<u>235,351</u>	<u>74,407</u>	<u>3,607,435</u>	<u>1,421</u>	<u>28,051,594</u>	<u>719,575</u>	<u>32,977,896</u>
Total revenues	\$ 24,427,460	4,098,227	9,223,891	16,909,270	2,074,407	3,607,435	838,289	28,327,524	719,575	90,226,078
Expenditures:										
Current:										
Certificated salaries	9,265,789	1,929,458	3,282,712	-	-	-	-	-	-	14,477,959
Classified salaries	1,178,295	508,754	2,457,948	6,557,910	-	-	-	-	-	10,702,907
Employee benefits	5,068,871	1,068,250	2,897,713	3,607,486	-	-	-	-	-	12,642,320
Books and supplies	637,431	240,520	152,193	8,920,689	-	-	-	-	-	9,950,833
Contract services and operating expenditures	5,433,029	355,755	159,237	238,935	841,207	3,140,635	-	-	-	10,168,798
Capital outlay	103,233	-	-	612,421	5,231,918	-	-	-	-	5,947,572
Debt service:										
Principal retirement	-	-	-	-	-	1,140,000	-	15,335,000	-	16,475,000
Interest	-	-	-	-	-	1,479,640	-	12,528,232	-	14,007,872
Total expenditures	<u>21,686,648</u>	<u>4,102,737</u>	<u>8,949,803</u>	<u>19,937,441</u>	<u>6,073,125</u>	<u>5,760,275</u>	<u>-</u>	<u>27,863,232</u>	<u>-</u>	<u>94,373,261</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,740,812</u>	<u>(4,510)</u>	<u>274,088</u>	<u>(3,028,171)</u>	<u>(3,998,718)</u>	<u>(2,152,840)</u>	<u>838,289</u>	<u>464,292</u>	<u>719,575</u>	<u>(4,147,183)</u>
Other financing sources (uses):										
Transfers in	20,447	-	-	1,639,297	-	1,000,000	-	-	1,070,000	3,729,744
Transfers out	(252,286)	(94,011)	(264,621)	(587,481)	(642,020)	-	(838,289)	(1,070,000)	-	(3,748,708)
Premium on the issuance of long-term liabilities	-	-	-	-	-	4,832,394	-	-	-	4,832,394
Proceeds from the issuance of debt	-	-	-	-	-	30,270,000	-	-	-	30,270,000
Deposit to refunding escrow	-	-	-	-	-	(32,015,000)	-	-	-	(32,015,000)
Total other financing sources (uses)	<u>(231,839)</u>	<u>(94,011)</u>	<u>(264,621)</u>	<u>1,051,816</u>	<u>(642,020)</u>	<u>4,087,394</u>	<u>(838,289)</u>	<u>(1,070,000)</u>	<u>1,070,000</u>	<u>3,068,430</u>
Net change in fund balances	2,508,973	(98,521)	9,467	(1,976,355)	(4,640,738)	1,934,554	-	(605,708)	1,789,575	(1,078,753)
Fund balances, July 1, 2017	<u>11,463,815</u>	<u>1,720,972</u>	<u>108,158</u>	<u>9,073,308</u>	<u>8,804,083</u>	<u>4,039,308</u>	<u>-</u>	<u>27,858,526</u>	<u>11,744,468</u>	<u>74,812,638</u>
Fund balances, June 30, 2018	<u>\$ 13,972,788</u>	<u>\$ 1,622,451</u>	<u>\$ 117,625</u>	<u>\$ 7,096,953</u>	<u>\$ 4,163,345</u>	<u>\$ 5,973,862</u>	<u>\$ -</u>	<u>\$ 27,252,818</u>	<u>\$ 13,534,043</u>	<u>\$ 73,733,885</u>

STOCKTON UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2018

Stockton Unified School District was established on July 1, 1936. The District operates 39 elementary schools, and 7 secondary schools. The District also operates 2 elementary and 3 secondary charter schools. The District maintains five specialized educational programs, including an adult school. There were no changes in District boundaries during the year.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Maria Mendez	President	2018
Angela Phillips	Vice President	2018
Andrea L. Burrise	Member	2018
Steve Smith	Member	2018
Cecilia Mendez	Member	2020
Kathy Garcia	Member	2020
Lange P. Luntao	Member	2020

ADMINISTRATION

John E. Deasy, Ph.D
Superintendent

Lisa Grant-Dawson
Chief Business Official

Craig Wells
Assistant Superintendent, Human Resources

Dr. Ward Andrus
Acting Assistant Superintendent, Educational Services

Reyes Gauna
Assistant Superintendent, Educational Support Services

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2018

	<u>Second Period Report</u>	<u>Annual Report</u>
DISTRICT		
Certificate #:	<u>87FB8E8F</u>	<u>24303138</u>
Elementary:		
Transitional Kindergarten through Third	11,045	11,061
Fourth through Sixth	8,356	8,346
Seventh and Eighth	5,371	5,369
Total Elementary	24,772	24,776
Secondary:		
Ninth through Twelfth	8,258	8,148
Total Secondary	8,258	8,148
	33,030	32,924
	<u>Second Period Report</u>	<u>Annual Report</u>
CHARTER SCHOOL - CLASSROOM BASED		
Certificate #:	<u>8E0DAAA6</u>	<u>5C9439D4</u>
<u>Nightingale Elementary Charter School</u>		
Elementary:		
Transitional Kindergarten through Third	188	188
Fourth through Sixth	123	123
Seventh and Eighth	76	76
Certificate #:	<u>727192DC</u>	<u>52546DEE</u>
<u>Pittman Elementary Charter School</u>		
Elementary:		
Transitional Kindergarten through Third	337	337
Fourth through Sixth	212	211
Seventh and Eighth	108	107
Subtotal Classroom Based	1,044	1,042

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2018

	<u>Second Period Report</u>	<u>Annual Report</u>
CHARTER SCHOOL - CLASSROOM BASED (Continued)		
Certificate #:	<u>FD971C83</u>	<u>5AD5691C</u>
<u>Stockton Health Careers Academy</u>		
Secondary:		
Ninth through Twelfth	466	461
Certificate #:	<u>753A3B57</u>	<u>A859B06</u>
<u>Pacific Law Academy</u>		
Secondary:		
Ninth through Twelfth	188	188
Certificate #:	<u>3F660161E</u>	<u>21DD8DA8</u>
<u>Stockton Unified Early College Academy</u>		
Secondary:		
Ninth through Twelfth	417	416
Total Classroom Based	2,115	2,107

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 For the Year Ended June 30, 2018

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
DISTRICT				
Kindergarten	36,000	36,000	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	55,620	180	In Compliance
Grade 8	54,000	55,620	180	In Compliance
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
CHARTER SCHOOLS				
<u>Nightingale Elementary Charter School</u>				
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	58,500	180	In Compliance
Grade 8	54,000	58,500	180	In Compliance
<u>Pittman Elementary Charter School</u>				
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	57,600	180	In Compliance
Grade 8	54,000	57,600	180	In Compliance

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 For the Year Ended June 30, 2018

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>2017-18 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
CHARTER SCHOOLS (Continued)				
<u>Stockton Health Careers Academy</u>				
Grade 9	64,800	64,884	180	In Compliance
Grade 10	64,800	64,884	180	In Compliance
Grade 11	64,800	64,884	180	In Compliance
Grade 12	64,800	64,884	180	In Compliance
<u>Pacific Law Academy</u>				
Grade 9	64,800	65,312	180	In Compliance
Grade 10	64,800	65,312	180	In Compliance
Grade 11	64,800	65,312	180	In Compliance
Grade 12	64,800	65,312	180	In Compliance
<u>Stockton Unified Early College Academy</u>				
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.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	13379	\$ 7,190,758
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Early Intervening Services	10119	900,840
84.027A	Special Education: IDEA Mental Health Allocation Plan, Part B, Sec 611	15197	1,360,804
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	615,752
84.027A	Special Education: IDEA Mental Health Services, Part B, Sec 611	15321	386,954
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	<u>75,623</u>
	Subtotal Special Education Cluster		<u>10,530,731</u>
	Adult Education Programs:		
84.002A	Adult Education: Adult Basic Education and Education State Leadership	14508	511,765
84.002A	Adult Education: English Literacy & Civics Education - Local Grant	14109	147,162
84.002	Adult Education: Adult Secondary Education	13978	<u>237,765</u>
	Subtotal Adult Education Programs		<u>896,692</u>
84.365	ESEA: Title III, Limited English Proficiency	15146	34,932
84.365	ESEA: Title III, English Learner Student Program	14346	<u>748,724</u>
	Subtotal Adult Education Programs		<u>783,656</u>
84.010	ESEA: Title I, Part A, Basic Grants Low-Income and Neglected	14329	13,452,982
84.186	ESEA: Title IV, Part A, Safe and Drug Free Schools and Communities (SDFSC) - Technical Assistance	14378	684,018
84.060	Indian Education	10011	230,737
84.367	ESEA: Title II, Part A Improving Teacher Quality Local Grants	14341	1,531,877
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	383,364
84.181	Special Education: IDEA Early Intervention Grants	24314	<u>55,122</u>
	Total U.S. Department of Education		<u>28,549,179</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2018

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.600	Head Start	10016	6,613,441
93.778	Medi-Cal Programs - Medicaid Cluster	*	82,167
93.778	Medi-Cal Administrative Activities (MAA) Claims	10013	<u>1,016,128</u>
	Medi-Cal Billing Option		
	Subtotal Medi-Cal Programs		<u>1,098,295</u>
	Total U.S. Department of Health and Human Services		<u>7,711,736</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	National School Lunch Program - School Nutrition Cluster	13396	15,174,721
10.558	Child Nutrition: CACFP Claims - Centers and Family Day Care	13393	<u>412,946</u>
	Total Federal Programs		<u>\$ 51,848,582</u>

*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, 2018

	Self-Insurance <u>Fund</u>
June 30, 2018 Unaudited Actual Financial Reporting Ending Fund Balance:	\$ 23,974,987
Client proposed adjustment to record claims liability	<u>(8,957,128)</u>
June 30, 2018 Audit Financial Statements Ending Fund Balance	<u>\$ 15,017,859</u>

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2018
(UNAUDITED)

<u>General Fund</u>	(Budget) <u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues and other financing sources	<u>\$ 465,994,681</u>	<u>\$ 446,566,893</u>	<u>\$ 453,507,795</u>	<u>\$ 430,605,506</u>
Expenditures	476,103,106	449,340,475	416,666,708	373,901,360
Other uses and transfers out	<u>12,392,334</u>	<u>14,159,744</u>	<u>14,160,983</u>	<u>16,735,745</u>
Total outgo	<u>488,495,440</u>	<u>463,500,219</u>	<u>430,827,691</u>	<u>390,637,105</u>
Change in fund balance	<u>\$ (22,500,759)</u>	<u>\$ (16,933,326)</u>	<u>\$ 22,680,104</u>	<u>\$ 39,968,401</u>
Ending fund balance	<u>\$ 102,795,257</u>	<u>\$ 125,296,016</u>	<u>\$ 142,229,342</u>	<u>\$ 119,549,238</u>
Available reserves	<u>\$ 9,769,909</u>	<u>\$ 9,251,036</u>	<u>\$ 8,428,896</u>	<u>\$ 12,101,813</u>
Designated for economic uncertainties	<u>\$ 9,769,909</u>	<u>\$ 9,251,036</u>	<u>\$ 8,428,896</u>	<u>\$ 7,792,332</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,309,481</u>
Available reserves as percentages of total outgo	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>3.1%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$1,033,887,632</u>	<u>\$ 990,636,661</u>	<u>\$ 861,667,624</u>	<u>\$ 806,368,460</u>
Average daily attendance at P-2, excluding Charter School	<u>33,123</u>	<u>33,030</u>	<u>33,087</u>	<u>32,766</u>

The General Fund fund balance has increased by \$25,303,080 over the past three years. The fiscal year 2017-2018 budget projects a decrease of \$22,500,759. 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, 2018, the District has met this requirement.

The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating deficit during the fiscal year ending June 30, 2019.

Total long-term liabilities have increased by \$184,268,201 over the past two years, due primarily to the addition of General Obligation Bonds, total OPEB liability and net pension liability.

Average daily attendance has increased by 264 over the past two years. The District anticipates an increase of 93 ADA for the 2018-2019 fiscal year.

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2018

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
1318 - Nightingale Charter School	Included in Charter Fund
1197 - Pittman Charter School	Included in Charter Fund
1283 - Health Careers Academy	Included in Charter Fund
1316 - Pacific Law Academy	Included in Charter Fund
1083 - Stockton Unified Early College Academy	Included in Charter Fund
1048 - Aspire Langston Hughes Academy	Separate Report
1552 - Aspire APEX Academy	Separate Report
1553 - Aspire Port City Academy	Separate Report
0554 - Aspire Rosa Parks Academy	Separate Report
1027 - Dr. Lewis Dolphin Stallworth Sr. Charter Schools	Separate Report
1142 - Stockton Collegiate International Elementary Charter School	Separate Report
1143 - Stockton Collegiate International Secondary Charter School	Separate Report
1360 - TEAM Charter School	Separate Report
1890 - TEAM Charter Academy	Separate Report

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 June 30, 2018

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 the cost principles 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 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, 2018.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 51,849,105
Less: Medi-Cal Billing Option not spent	93.778	<u>(523)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 51,848,582</u>

*Program name not available.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
June 30, 2018

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 2018-2019 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

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

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, 2018, the District did not adopt this program.

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

Board of Education
Stockton Unified School District
Stockton, California

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 *2017-18 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, 2018.

<u>Description</u>	<u>Procedures Performed</u>
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
Apprenticeship: Related and Supplemental Instruction	No, see below
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
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.

The District does not offer an Apprenticeship: Related and Supplemental Instruction program; therefore, we did not perform any procedures related to this program.

We did not perform any procedures related to After/Before 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 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 *2017-18 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 qualified 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 2018-002 in the accompanying Schedule of Audit Findings and Questioned Costs, Stockton Unified School District did not comply with 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 referred to above.

(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, 2018.

Other Matter

Stockton Unified School District's response to the noncompliance 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 the 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 *2017-18 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 LLP

Crowe LLP

Sacramento, California
February 22, 2019

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, 2018, 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 February 22, 2019.

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. We identified a deficiency in internal control that was communicated to management as identified in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2018-001.

(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*.

Stockton Unified School District Response to Findings

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

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 LLP

Crowe LLP

Sacramento, California
February 22, 2019

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, 2018. 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 statutes, 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, 2018.

(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 LLP

Crowe LLP

Sacramento, California
February 22, 2019

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2018

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program - School Nutrition Cluster
84.027, 84.027A, 84.173 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 1,555,457

Auditee qualified as low-risk auditee? _____ Yes X No

STATE AWARDS

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

2018-001 DEFICIENCY - INTERNAL CONTROL - ASSOCIATED STUDENT BODY (30000)

Criteria or specific requirement

Education Code Section 48930 (and California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

Harrison Elementary School:

- Tally sheets were not being utilized to track sales occurring and monies being collected.
- A reconciliation of inventory and sales was not occurring.

Monroe Elementary School:

- Tally sheets were not being utilized to track sales occurring and monies being collected.

Tyler Elementary School:

- Tally sheets were not being utilized to track sales occurring and monies being collected.

Context

The deficiencies listed above were identified through our testing of design effectiveness of internal controls related to Associated Student Body Funds.

Effect

ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Recommendation

Based on the deficiencies identified above, we recommend tally sheets be utilized to track sales and the collections of monies. Furthermore, periodic inventory counts and reconciliations should occur during the school year.

Views of Responsible Officials and Corrective Action Plan

The District provides training and on-site visits on the Associate Student Body Handbook, which outlines the issues noted by the auditor's recommendations, some at a greater level than what has been suggested.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2018-002 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 Hazelton Elementary School and Rio Calaveras Elementary School two students were improperly claimed for apportionment, resulting in an overstatement of two days of attendance.

Effect

The effect of these findings are an overstatement of 0.01 ADA.

Cause

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

Fiscal Impact

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

Recommendation

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

Views of Responsible Officials and Corrective Action Plan

The District will continue to provide staff training with school site personnel. No corrections were necessary for the P-2 or Annual reports of attendance.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2018

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2017-001		
<u>Condition:</u> At Pulliam Elementary School a dual count is not being documented when funds are turned into the office.	Partially implemented	See current year finding 2018-001
<u>Recommendation:</u> Based on the deficiency identified above, we recommend cash count forms should be performed evidencing dual count of funds for receipt of funds.		