STOCKTON UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2017

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

CONTENTS

CONTENTS

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2017

CONTENTS

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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 17, the General Fund Budgetary Comparison Schedule, Schedule of Other Postemployment Benefits (OPEB) Funding Progress, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions on pages 65 to 70 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.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of Stockton Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stockton Unified School District's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2017

Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2017, 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, 2017, assets and deferred outflow of resources totaled $1.07 billion. Liabilities and deferred inflow of resources totaled $929.4 million. This results in a net position for the District of $143.2 million.
- Total government-wide revenue for the 2017 fiscal year was $560.0 million. Expenditures totaled $505.5 million. The difference of $54.5 million is an increase to the net position of the District.
- Capital assets, net of depreciation, increased by $8.0 million. Construction projects completed during the year include roof replacement and paving at Madison Elementary, paving at Cleveland Elementary, installation of a fire alarm and intrusion system at Elmwood Elementary, and the replacement of the HVAC system at Hoover Elementary. Projects in the construction phase at the end of the 2016-17 year totaled $68.7 million.
- At June 30, long-term debt totaled $861.7 million. During the 2016-17 year, general obligation bond debt was reduced by $14.3 million. Net pension liability increased by $66.9 million to $361.6 million. The liability for post-employment healthcare benefits increased by $2.7 million

Overview of the Financial Statements

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

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

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

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

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

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

Major Features of the Government-wide and Fund Financial Statements

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

Government-wide Statements

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

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

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

Fund Financial Statements

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

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

There are three types of funds that the District utilizes:

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

Financial Analysis of the District as a Whole

The computation of District net position at June 30, 2017 and 2016 is presented by category in the table below:

	Government-Wide Activities		Year Over
	2017	2016	Year Change
Assets:			
Cash and Investments	$ 355,686,982	$ 322,449,075	$ 33,237,907
Receivables	26,693,779	25,296,788	1,396,991
Prepaid expenses	49,582	1,165,774	(1,116,192)
Inventories	1,366,857	1,245,282	121,575
Non-depreciable capital assets	94,468,266	75,801,578	18,666,688
Capital assets, net of depreciation	488,731,422	499,379,128	(10,647,706)
Total assets	966,996,888	925,337,625	41,659,263
Deferred Outflows of Resources:			
Deferred outflows of resources - pensions	77,879,550	31,350,320	46,529,230
Deferred loss from Refunding of Debt	27,724,048	29,145,833	(1,421,785)
Total Deferred Outflow	105,603,598	60,496,153	45,107,445
Liabilities:			
Accounts payable	24,464,421	25,887,807	(1,423,386)
Other current liabilities	9,361,358	16,377,910	(7,016,552)
Long-term liabilities	879,129,376	823,521,460	55,607,916
Total liabilities	912,955,155	865,787,177	47,167,978
Deferred Inflows of Resources:			
Deferred inflows of resources - pensions	16,437,000	31,325,000	(14,888,000)
Net Position:			
Net investment in capital assets	201,441,598	238,883,531	(37,441,933)
Restricted	152,983,142	89,933,702	63,049,440
Unrestricted	(211,216,409)	(240,095,632)	28,879,223
Total Net Position	$ 143,208,331	$ 88,721,601	$ 54,486,730

Total assets and deferred outflows increased by a net $86.8 million during the 2017 fiscal year. Of this total, cash and investment accounts increased by $33.2 million, receivables increased by $1.4 million, and other assets increased by $17.7 million. Deferred outflows of resources increased by $45.1 million. Total capital assets, net of depreciation, increased by $8.0 million. Capital assets are discussed in more detail later in this Management Discussion and Analysis report.

Total liabilities and deferred inflows of resources increased by a net $32.3 million. Of this amount, accounts payable and other current liabilities decreased by $8.4 million, while long-term debt increased by $55.6 million. Deferred inflows decreased by $14.9 million. Long-term debt is discussed in detail in a later section of this report.

The net increase to assets of $86.8 million, reduced by the increase of $32.3 million to liabilities, results in an increase of $54.5 million to net position at June 30, 2017.

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

	Government-Wide Activities 2017	Government-Wide Activities 2016	Year Over Year Change
Revenues - Program:			
Charges for Services	$ 377,620	$ 1,341,774	$ (964,154)
Operating Grants and Contributions	136,565,489	122,003,424	14,562,065
Capital Grants and Contributions	-	8,300,130	(8,300,130)
Revenues - General:			
Unrestricted Federal and State Aid	320,949,413	314,010,609	6,938,804
Taxes Levied for General Purposes	50,651,679	44,661,926	5,989,753
Taxes Levied for Debt Service	32,650,630	31,799,811	850,819
Taxes Levied for Other Specific Purposes	1,459,484	1,328,058	131,426
Interest and Investment Earnings	1,932,694	677,895	1,254,799
Other General Revenues	15,407,348	5,321,768	10,085,580
Total revenues	559,994,357	529,445,395	30,548,962
Expenses:			
Instruction	290,473,384	264,095,414	26,377,970
Pupil and Instructional Services	120,258,195	106,447,502	13,810,693
General Administration	19,753,242	18,305,692	1,447,550
Plant Services	50,732,203	47,543,524	3,188,679
Ancillary Serv., Enterprise Activ., Other Outgo, and Interest on Long-term Liab.	24,290,603	28,207,343	(3,916,740)
Total Expenses	505,507,627	464,599,475	40,908,152
Increase in Net Position	54,486,730	64,845,920	(10,359,190)
Net Position, Beginning of the Year	88,721,601	23,875,681	64,845,920
Net Position, End of the Year	$ 143,208,331	$ 88,721,601	$ 54,486,730

For the 2016-17 fiscal year, total District revenues were $560.0 million. Total District expenses were $505.5 million. The difference, $54.5 million, is an increase to net position at June 30, 2017.

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

Enrollment in Grades K-12, not including the District's dependent charter schools, increased during the 2016-17 year when compared with the prior school year. Enrollment at the end of the second school month was 35,422 students, an increase of 475 students from the 2015-2016 year. When District charter school enrollment is included in the totals, enrollment increased by 564 students, indicating that District-wide enrollment grew during the 2016-17 year.

This trend is also seen with Average Daily Attendance (ADA). For the 2016-17 year, the ADA for the Second Principal Apportionment (P-2) period totaled 33,087, an increase of 321 ADA from the prior fiscal year. Growth in enrollment and ADA are expected to continue during the 2017-18 year.

Financial Analysis of the District's Funds

At June 30, 2017, the District had twelve governmental funds reporting a combined fund balance of $324.3 million, an increase of $36.5 million over the prior year. Of these funds, eight had revenues which exceeded expenditures, contributing to the combined fund balance. The following table details the fund balances of the individual governmental funds.

Governmental Funds – Fund Balance

	Fund Balance – June 30, 2017	Fund Balance – June 30, 2016	Year Over Year Change
General Fund	$ 142,229,342	$ 119,549,238	$ 22,680,104
Charter Schools Special Revenue Fund	11,463,815	7,912,471	3,551,344
Adult Education Fund	1,720,972	1,480,124	240,848
Child Development Fund	108,158	418,196	(310,038)
Cafeteria Special Revenue Fund	9,073,308	10,302,689	(1,229,381)
Deferred Maintenance Fund	8,804,083	2,060,050	6,744,033
Building Fund	57,412,333	68,561,265	(11,148,932)
Capital Facilities Fund	4,039,308	2,308,823	1,730,485
County School Facilities Fund	--	60,605	(60,605)
Special Reserve for Capital Outlay Projects	49,885,781	39,513,911	10,371,870
Bond Interest and Redemption Fund	27,858,526	25,441,897	2,416,629
Debt Service Fund	11,744,468	10,215,657	1,528,811
Totals	$ 324,340,094	$ 287,824,926	$ 36,515,168

General Fund – Revenue and Expenditure Analysis

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2017, along with the increase or decrease from fiscal year 2016 and breakdowns by percentage. The table does not include transfers in and other financing sources.

	General Fund			
	FY-2017 Actual	Percent Of Total	Increase (Decrease) from FY-2016	Percent Increase or (Decrease)
Revenues:				
LCFF Sources	$ 334,844,533	73.83%	$ 21,352,479	6.81%
Federal Revenue	38,909,316	8.58%	(176,480)	(0.45)%
Other State Revenue	69,363,904	15.30%	1,268,539	1.86%
Other Local Revenue	10,390,042	2.29%	2,329,484	28.90%
Total Revenues	$ 453,507,795	100.00%	$ 24,774,022	5.78%

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-2017 Actual	Percent Of Total	Increase (Decrease) from FY-2016	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	$ 173,865,837	41.73%	$ 14,739,035	9.26%
Classified Salaries	59,917,722	14.38%	3,137,889	5.53%
Employee Benefits	118,405,603	28.42%	24,440,383	26.01%
Books and Supplies	20,884,654	5.01%	(2,677,721)	(11.36)%
Services, Other Operating Expenses	41,624,579	9.99%	2,617,252	6.71%
Capital Outlay	1,289,822	0.31%	874,940	210.89%
Other Outgo/Dir. Supp./Indirect Costs	678,491	0.16%	(366,430)	(35.07)%
Total Expenditures	$ 416,666,708	100.00%	$ 42,765,348	11.44%

The District's financial condition continues to improve when compared to recent years. The improving national and state economies, increases to student enrollment and the average daily attendance rate, and the state's LCFF funding model are all contributing to the District's stronger financial position. Stockton Unified is looking for the financial picture to remain strong during the 2017-18 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 2017 General Fund operating budget was adopted by the Governing Board in June of 2016. As adopted, budgeted revenues totaled $418.7 million and budgeted expenditures totaled $425.1 million. This resulted in a structural deficit of $6.4 million. District reserves of $106.4 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 2016-17 Second Interim report.

	General Fund FY-17 Actual Revenue	General Fund Board Approved Budget	Increase (Decrease)
Revenue:			
LCFF Sources	$ 334,844,533	$ 336,198,816	$ (1,354,283)
Federal Revenue	38,909,316	56,660,295	(17,750,979)
Other State Revenue	69,363,904	62,258,500	7,105,404
Other Local Revenue	10,390,042	6,455,389	3,934,653
Transfers In/Other Sources	1,456,909	270,323	1,186,586
Total Revenue	$ 454,964,704	$ 461,843,323	$ (6,878,619)

	General Fund FY-17 Actual Expenditures	General Fund Board Approved Budget	Increase (Decrease)
Expenditures:			
Certificated Salaries	$ 173,865,837	$ 179,947,075	$ (6,081,238)
Classified Salaries	59,917,722	61,808,404	(1,890,682)
Employee Benefits	118,405,603	114,691,115	3,714,488
Books and Supplies	20,884,654	50,946,468	(30,061,814)
Services and Other Operating Expenses	41,624,579	49,684,753	(8,060,174)
Capital Outlay	1,289,822	2,854,795	(1,564,973)
Other Outgo/ Direct Support/Indirect Costs	678,491	49,704	628,787
Transfers Out/Other Uses	15,617,892	16,817,892	(1,200,000)
Total Expenditures	$ 432,284,600	$ 476,800,206	$ (44,515,606)
Change in Net Ending Balance	$ 22,680,104	$ (14,956,883)	$ 37,636,987

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2017	2016
Land	$ 25,735,353	$ 25,735,353
Improvement of Sites	5,254,477	4,901,841
Buildings	480,751,689	490,899,557
Equipment	2,725,256	3,577,730
Construction in Progress	68,732,913	50,066,225
Totals	$ 583,199,688	$ 575,180,706

The table above reflects capital assets, net of depreciation, at June 30, 2017 and 2016. The District uses an asset capitalization threshold of $50,000. Depreciation on each capitalized asset has been calculated using the straight-line method over applicable useful lives. Depreciation expense on completed assets totaled $15.6 million for the 2016-17 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 $8.0 million during the year. This includes an increase of $18.7 million to Construction in Progress. Construction projects completed during the year include roof replacement and paving at Madison Elementary, paving at Cleveland Elementary, installation of a fire alarm and intrusion system at Elmwood Elementary, and the replacement of the HVAC system at Hoover Elementary. At the end of the 2016-17 year, total funds expended on projects in the construction phase totaled $68.7 million.

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

Outstanding Debt at Year-End

	Government-Wide Activities	
	2017	2016
General Obligation Bonds, including Premiums	$ 407,252,520	$ 424,688,032
Accreted Interest – 2008 Series D General Obligation Bonds	22,008,512	17,437,666
Certificates of Participation, including Premiums	33,268,780	34,359,875
Qualified Zone Academic Bonds Payable	5,000,000	5,000,000
Redevelopment Agency Repayment	--	242,185
Postretirement Healthcare Benefits	29,892,095	27,622,462
Net Pension Liability	361,610,000	294,675,000
Compensated Absences	2,635,717	2,343,240
Totals	$ 861,667,624	$ 806,368,460

At June 30, 2017, long-term debt totaled $861.7 million. This represents an increase of $55.3 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:

- Net pension liability by $66.9 million to $361.6 million;
- Postemployment benefits by $2.3 million, to $29.9 million, and;
- Accreted Interest on general obligation bonds by $4.6 million to a total of $22.0 million.

The net pension liability is more fully discussed in notes 8 and 9 of the financial statements.

Decreases to long-term debt during the 2016-17 year included:

- Normal payments on general obligation bonds, including amortization of bond premiums - $17.4 million;
- Normal payments on certificates of participation, including amortization of premiums - $1.1 million.

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 2017-18 Stockton Unified School District budget has been developed with all components of the proposal presented by Governor Jerry Brown in January of 2017 and any applicable May Revise and Adopted Budget adjustments. The District enters the 2017-18 fiscal year with an economy that continues to improve and a commitment by state legislative leaders for increased education funding.

In January 2017, the Governor released his Proposed Budget with a positive outlook for education funding. This theme was adjusted slightly downward with the May Revision, while still acknowledging the continued expansion of the state and national economies. This expansion has been evidenced by the stock market continuing to hit all-time highs, unemployment rates which have decreased to the level of "full employment," housing prices which have recovered, and the Federal Reserve recognizing the need to begin raising interest rates to stay ahead of potential inflation.

At the same time, 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. Adding to the level of uncertainty is a possible economic downturn, where the question is not if it will happen, but when. Management of District funds will require a prudent assessment of present needs balanced against the uncertainty of future revenue streams. Taking a conservative stance may be in order as the District plans for the future.

The state education funding plan for 2017-18 continues to center on the Local Control Funding Formula (LCFF). Base grants, allocated on grade spans for all students, and supplemental and concentration grants targeted to specific student groups, provide the main source of state revenue. Funding under 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 to the LCFF is a requirement for school districts to develop, adopt, and then update on an annual basis a three-year Local Control and Accountability Plan (LCAP) using a template adopted by the California Board of Education. The LCAP is required to identify annual goals, specific actions, and measure student progress across eight performance areas, including student academic achievement, school climate, student access to a broad curriculum, and parent engagement. Parent and public input is required in developing, revising, and updating the LCAP. The academic priorities of the LCAP must be aligned to the district's spending plan found in the annual budget. The District met with parents and the public, school personnel and bargaining units, and local civic leaders to develop the LCAP. After many meetings and several public hearings, the Governing Board adopted the District's LCAP in June of 2017.

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

The annual state appropriation provided to increase LCFF funding is the sole determinant of changes in school district LCFF revenues. For 2017-18, funding for implementation of the LCFF includes a Cost of living adjustment (COLA) of 1.56% and totals $1.4 billion state-wide. The increased LCFF funding is now estimated to be almost 97% of the LCFF funding target.

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

LCFF - Base Grant Entitlements – Target Funding

Nearly $1.4 billion is budgeted state-wide for continued implementation of the Local Control Funding Formula (LCFF). Each school district receives a base grant allocation calculated by grade span: K-3, 4-6, 7-8, and 9-12. A COLA of 1.56% is included in the calculation of the 2017-18 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
2016-17 Base Grant per ADA	$ 7,083	$ 7,189	$ 7,403	$ 8,578
COLA @ 1.56%	$ 110	$ 112	$ 115	$ 134
2017-18 Base Grant per ADA	$ 7,193	$ 7,301	$ 7,518	$ 8,712

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

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

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
2017-18 Base Grant per ADA	$ 7,193	$ 7,301	$ 7,518	$ 8,712
Adjustment Percentage	10.4% GSA	-	-	2.6% CTE
Adjustment Amount	$ 748	-	-	$ 227
Adjusted Grant per ADA	$ 7,941	$ 7,301	$ 7,518	$ 8,939

LCFF – Supplemental and Concentration Grants per ADA – Target Funding

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

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
Adjusted Grant per ADA	$ 7,941	$ 7,301	$ 7,518	$ 8,939
20% Supplemental Grant	$ 1,588	$ 1,460	$ 1,504	$ 1,788
50% Concentration Grant (for eligible students exceeding 55% of enrollment	$ 3,971	$ 3,651	$ 3,759	$ 4,470
Total Adjusted Target Funding Amount	$ 13,500	$ 12,412	$ 12,781	$ 15,197

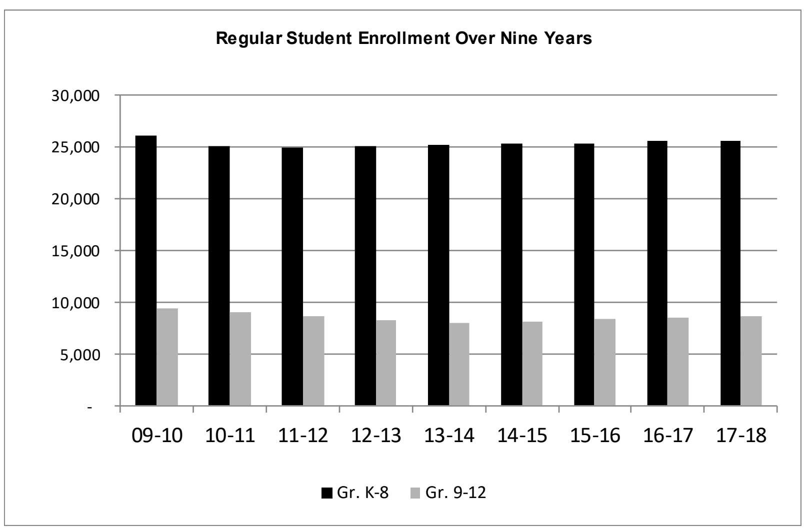
The LCFF is now almost 97% fully funded. It is estimated that full funding will be reached in the 2020-21 fiscal year. Cost of living adjustments are projected to be low (1% to 3%) over the next few years and the large Proposition 98 funding increases received by school districts over the last few years are coming to an end. This increased funding came as a result of the State paying the Maintenance Factor funds withheld during the lean budget years. With the Maintenance Factor significantly paid back, school districts will see lower per year funding increases going forward. At the same time, expenditures will continue to rise, resulting in school districts being squeezed in their efforts to keep their financial activities in balance. As mentioned earlier, a conservative stance may be necessary when considering a major expansion of an existing program or taking on any new initiatives.

Other Education Items Included in the State Budget
Other items in the state budget for allocation state-wide include:

- $877 million in one-time discretionary funds will go to all school districts, county offices of education, and charter schools. This amount, estimated to provide $147 per ADA, can be used for such things as deferred maintenance, professional development, and instructional materials.
- A COLA of $3.5 million for the Mandated Block Grant, with $7.9 million in additional funding for mandated reporter training.
- A COLA, estimated at $8.31 per ADA, for Special Education, with additional funding for specific programs.
- $63.9 million of one-time funds for a variety of programs assisting students and teachers.
- $7.9 million to provide full-day State Preschool access for an additional 2,959 children from low-income working families, starting March 1, 2018.

Critical assumptions used in preparing the District's 2017-18 General Fund budget are discussed below.

Student Enrollment and Enrollment Projections
One of the economic factors affecting the school District's future outlook and growth potential is enrollment. Enrollment represents the number of students registered to attend schools within the District's boundaries. Attendance represents those students actually coming to school each day, with revenue coming to the District based on the average daily attendance, or ADA. Additional revenue can be generated from average daily attendance when a greater number of students attend District schools. However, if enrollment is lower, the District receives less of this general purpose revenue. With the start of the 2017-18 school year, enrollment in District schools, including charter schools, is 37,593. This is an increase of 564 students over the prior year, but slightly below the projected enrollment of 37,750 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 almost 72% of the General Fund unrestricted expenditure budget toward salary and health benefit costs. The District controls salary costs in a number of ways, including the monitoring of authorized positions in the budget, issuing hiring freezes when necessary, and restricting the use of additional and overtime pay. The District will continue to use prudence in discussions with employee bargaining groups regarding the adjustment of employee salaries.

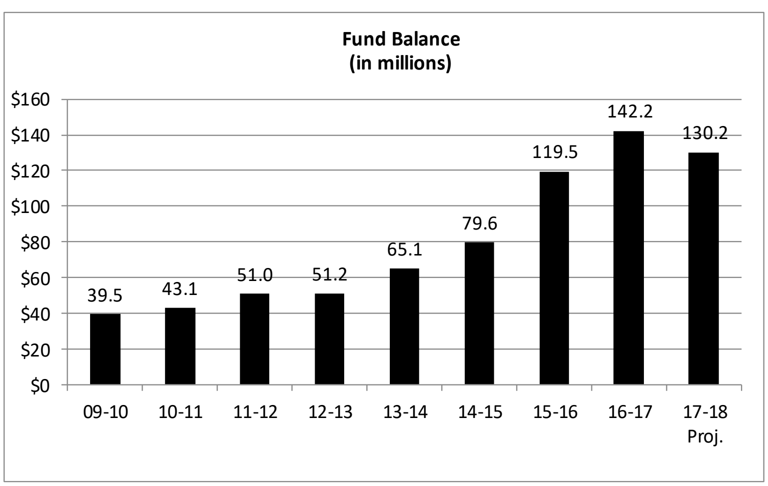
In addition, the District has to assume increases in expenses due to step and column changes. Stockton Unified is obligated to provide additional employee compensation for each bargaining unit contract which has additional experience (years worked) and/or additional education (post-secondary degree program) credits. The District is assuming a step and column cost increase for certificated staff of 1.263%. The assumed rate increase for classified staff for the 2017-18 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 while providing 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 District is based on 2% of the total General Fund expenditures (approximately $8.5 million). Setting aside a state required reserve means that the District has fewer dollars available for operational areas. It also means that a reserve balance is available if the District must address an unplanned financial situation. It is not anticipated that the state's "cap" on the amount a school district can reserve will be triggered during the 2017-18 year.

The graph above shows the history of the District's General Fund balance, including the projected net ending fund balance for the 2017-18 year, which includes restricted balance estimates.

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

Contacting the District's Financial Management

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

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	$ 355,686,982
Receivables	26,693,779
Prepaid expenses	49,582
Stores inventory	1,366,857
Non-depreciable capital assets (Note 4)	94,468,266
Depreciable capital assets, net of accumulated depreciation (Note 4)	488,731,422
Total assets	966,996,888
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 8 and 9)	77,879,550
Deferred loss from refunding of debt	27,724,048
Total deferred outflows	105,603,598
LIABILITIES	
Accounts payable	24,464,421
Claims liability, current (Note 5)	2,462,000
Unearned revenue	6,899,358
Long-term liabilities:	
Claims liability, less current portion (Note 5)	17,461,752
Due within one year (Note 6)	18,932,530
Due after one year (Note 6)	842,735,094
Total liabilities	912,955,155
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 8 and 9)	16,437,000
NET POSITION	
Net investment in capital assets	201,441,598
Restricted:	
Legally restricted programs	44,692,422
Capital projects	53,925,089
Debt service	39,602,994
Self insurance	14,762,637
Unrestricted	(211,216,409)
Total net position	$ 143,208,331

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

		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	$ 290,473,384	$ 21,196	$ 73,480,633	$ -	$ (216,971,555)
Instruction-related services:					
Supervision of instruction	31,410,150	2,192	14,373,231	-	(17,034,727)
Instructional library, media and technology	525,700	27	3,500	-	(522,173)
School site administration	29,064,683	68	2,574,394	-	(26,490,221)
Pupil services:					
Home-to-school transportation	11,341,133	-	33,703	-	(11,307,430)
Food services	17,789,467	266,585	16,467,397	-	(1,055,485)
All other pupil services	30,127,062	3,023	9,636,195	-	(20,487,844)
General administration:					
Data processing	4,450,535	158	16,103	-	(4,434,274)
All other general administration	15,302,707	12,988	2,906,443	-	(12,383,276)
Plant services	50,732,203	4,632	2,732,729	-	(47,994,842)
Ancillary services	1,194,411	-	63,746	-	(1,130,665)
Community services	22,500	-	-	-	(22,500)
Enterprise activities	8,121	-	-	-	(8,121)
Other outgo	685,891	66,751	14,277,415	-	13,658,275
Interest on long-term liabilities	22,379,680	-	-	-	(22,379,680)
Total governmental activities	$ 505,507,627	$ 377,620	$ 136,565,489	$ -	(368,564,518)

General revenues:	
Taxes and subventions:	
Taxes levied for general purposes	50,651,679
Taxes levied for debt service	32,650,630
Taxes levied for other specific purposes	1,459,484
Federal and state aid not restricted to specific purposes	320,949,413
Interest and investment earnings	1,932,694
Interagency revenues	2,266,954
Miscellaneous	10,724,636
Special and extraordinary items	2,415,758
Total general revenues	423,051,248
Change in net position	54,486,730
Net position, July 1, 2016	88,721,601
Net position, June 30, 2017	$ 143,208,331

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	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	$ 150,085,353	$ 57,614,570	$ -	$ 54,727,527	$ 262,427,450
Cash in County Treasury restricted for capital projects	-	-	43,806,686	-	43,806,686
Cash on hand and in banks	-	-	-	8,351	8,351
Cash in revolving fund	63,912	-	-	3,602	67,514
Cash with Fiscal Agent	1,640,155	-	-	12,351,925	13,992,080
Receivables	22,539,819	151,754	105,642	3,762,457	26,559,672
Prepaid expenditures	42,076	-	-	7,506	49,582
Due from other funds	4,193,005	41,950	8,079,078	11,630,805	23,944,838
Stores inventory	756,932	-	-	609,925	1,366,857
Total assets	$ 179,321,252	$ 57,808,274	$ 51,991,406	$ 83,102,098	$ 372,223,030
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 14,444,434	$ 395,941	$ 64,299	$ 2,134,066	$ 17,038,740
Unearned revenue	4,804,722	-	2,041,289	53,347	6,899,358
Due to other funds	17,842,754	-	37	6,102,047	23,944,838
Total liabilities	37,091,910	395,941	2,105,625	8,289,460	47,882,936
Fund balances:					
Nonspendable	862,919	-	-	618,556	1,481,475
Restricted	13,522,086	57,412,333	49,885,781	74,194,082	195,014,282
Assigned	119,415,441	-	-	-	119,415,441
Unassigned	8,428,896	-	-	-	8,428,896
Total fund balances	142,229,342	57,412,333	49,885,781	74,812,638	324,340,094
Total liabilities and fund balances	$ 179,321,252	$ 57,808,274	$ 51,991,406	$ 83,102,098	$ 372,223,030

See accompanying notes to financial statements.

Total fund balances - Governmental Funds		$ 324,340,094
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 $816,903,161 and the accumulated depreciation is $233,703,473 (Note 4).		583,199,688
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, 2017 consisted of (Note 6):		
General Obligation Bonds and premium	$ (407,252,520)	
Accreted Interest	(22,008,512)	
Certificates of Participation and premium	(33,268,780)	
Qualified Zone Academy Bonds	(5,000,000)	
Net pension liability (Notes 8 and 9)	(361,610,000)	
Post-employment healthcare benefits	(29,892,095)	
Compensated absences	(2,635,717)	
		(861,667,624)
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.		(6,593,062)
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.		27,724,048
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported (Notes 8 and 9).		
Deferred outflows of resources relating to pensions	$ 77,879,550	
Deferred inflows of resources relating to pensions	(16,437,000)	
		61,442,550

(Continued)

Internal service funds are used to conduct certain activities for which costs are charged to other funds. Assets and liabilities are reported within the governmental activities in the Statement of Net Position.	$ 14,762,637
Total net position - governmental activities	$ 143,208,331

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, 2017

	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	$ 294,946,786	$ -	$ -	$ 22,590,156	$ 317,536,942
Local sources	39,897,747	-	-	-	39,897,747
Total LCFF	334,844,533	-	-	22,590,156	357,434,689
Federal sources	38,909,316	-	-	16,953,549	55,862,865
Other state sources	69,363,904	-	7,466,657	13,032,468	89,863,029
Other local sources	10,390,042	581,421	3,566,089	39,342,220	53,879,772
Total revenues	453,507,795	581,421	11,032,746	91,918,393	557,040,355
Expenditures:					
Current:					
Certificated salaries	173,865,837	-	-	12,755,188	186,621,025
Classified salaries	59,917,722	5,626	472,767	9,054,805	69,450,920
Employee benefits	118,405,603	600	207,488	10,909,394	129,523,085
Books and supplies	20,884,654	307,113	46,140	9,776,588	31,014,495
Contract services and operating expenditures	41,624,579	1,072,824	1,764,006	4,643,190	49,104,599
Other outgo	678,491	-	-	-	678,491
Capital outlay	1,289,822	11,085,719	3,875,317	3,053,520	19,304,378
Debt service:					
Principal retirement	-	-	-	15,355,000	15,355,000
Interest	-	-	-	19,473,194	19,473,194
Total expenditures	416,666,708	12,471,882	6,365,718	85,020,879	520,525,187
Excess (deficiency) of revenues over (under) expenditures	36,841,087	(11,890,461)	4,667,028	6,897,514	36,515,168
Other financing sources (uses):					
Transfers in	1,456,909	741,529	9,250,608	11,471,807	22,920,853
Transfers out	(15,617,892)	-	(3,545,766)	(3,757,195)	(22,920,853)
Total other financing sources (uses)	(14,160,983)	741,529	5,704,842	7,714,612	-
Change in fund balances	22,680,104	(11,148,932)	10,371,870	14,612,126	36,515,168
Fund balances, July 1, 2016	119,549,238	68,561,265	39,513,911	60,200,512	287,824,926
Fund balances, June 30, 2017	$ 142,229,342	$ 57,412,333	$ 49,885,781	$ 74,812,638	$ 324,340,094

See accompanying notes to financial statements.

Net change in fund balances - Total Governmental Funds	$ 36,515,168
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).	23,706,532
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(15,622,280)
If a planned capital project is canceled and will not be completed, costs previously capitalized as work in provess must be written off to expense. Costs writeen off for canceled projects were. (Note 4).	(65,270)
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).	15,597,185
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 5).	3,171,607
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).	(4,570,846)
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.	(327,648)
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:	5,583,946

(Continued)

In government funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Note 6).	$ (2,269,633)
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was (Notes 8 and 9):	(5,517,769)
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).	(292,477)
Change in net position of governmental activities	$ 54,486,730

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2017

ASSETS	
Cash and investments:	
Cash in County Treasury	$ 34,617,102
Cash with Fiscal Agent	767,270
Cash in Revolving Fund	529
Receivables	134,107
Total current assets	35,519,008
LIABILITIES	
Accounts payable	832,619
Claims liability, current	2,462,000
Total current liabilities	3,294,619
Claims liability, less current portion	17,461,752
Total liabilities	20,756,371
NET POSITION	
Restricted for self-insurance	$ 14,762,637

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, 2017

Operating revenues:	
Self-insurance premiums	$ 18,915,095
Other local revenues	28,545
Total operating revenues	18,943,640
Operating expenses:	
Classified salaries	326,618
Employee benefits	152,057
Books and supplies	14,835
Contract services	13,128,586
Total operating expenses	13,622,096
Operating income	5,321,544
Non-operating income:	
Interest income	262,402
Change in net position	5,583,946
Total net position, July 1, 2016	9,178,691
Total net position, June 30, 2017	$ 14,762,637

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, 2017

Cash flows from operating activities:	
Cash received from self-insurance premiums	$ 18,915,095
Cash received from other local revenue	28,545
Cash paid for employee benefits	(5,263,286)
Cash paid for other expenses	(8,663,175)
Net cash provided by operating activities	5,017,179
Cash flows provided by investing activities:	
Interest income received	262,402
Increase in cash and investments	5,279,581
Cash and investments, July 1, 2016	30,105,320
Cash and investments, June 30, 2017	$ 35,384,901
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 5,321,544
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in:	
Receivables	40,745
Amount due from other funds	2,630
Decrease in:	
Accounts payable and claims liability	(347,740)
Total adjustments	(304,348)
Net cash provided by operating activities	$ 5,017,196

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST AND AGENCY FUNDS
June 30, 2017

	Trust Fund Scholarship Trust	Agency Fund Student Body Funds
ASSETS		
Cash on hand and in banks (Note 2)	$ 777,711	$ 956,883
LIABILITIES		
Due to student groups	-	$ 956,883
NET POSITION		
Restricted for scholarships	$ 777,711	

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2017

	Scholarship Trust
Additions:	
Contributions	$ 41,689
Deductions:	
Contract services and operating expenditures	55,232
Change in net position	(13,543)
Net position, July 1, 2016	791,254
Net position, June 30, 2017	$ 777,711

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A - Manifestations of Oversight

1. The CFD's and Corporation's Board of Directors were appointed by the District's Board of Education.
2. The Corporation has no employees. The District's Superintendent and Chief Business Official function as agents of the Corporation. Neither individual received additional compensation for work performed in this capacity.
3. The District exercises significant influence over operations of the CFD and the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the CFD and the Corporation.

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the CFD and the Corporation must have the consent of the District.
2. Any deficits incurred by the CFD and the Corporation will be reflected in the lease payments of the District. Any surpluses of the CFD and the Corporation revert to the District at the end of the lease period.
3. It is anticipated that the District's lease payments will be the sole revenue source of the CFD and the Corporation.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C - Scope of Public Service and Financial Presentation

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

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

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

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

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

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

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

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

(Continued)

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)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Self-Insurance Fund:

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

Scholarship Trust Fund:

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

Student Body Funds:

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

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 and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2017.

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)

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 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 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:

	STRP	PERF B	Total
Deferred outflows of resources	$ 48,052,934	$ 29,826,616	$ 77,879,550
Deferred inflows of resources	$ 8,651,000	$ 7,786,000	$ 16,437,000
Net pension liability	$264,825,000	$ 96,785,000	$361,610,000
Pension expense	$ 39,241,998	$ 10,997,120	$ 50,239,118

Compensated Absences: Compensated absences totaling $2,635,717 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.

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, 2017, the District had no committed fund balances.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances. At June 30, 2017, the Board of Education has designated the Chief Business Official with the authority to assign fund balances.

E - Unassigned Fund Balance:

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

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

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2017, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

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

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

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

(Continued)

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2017 are reported at fair value and consisted of the following:

	Governmental Activities			
	Governmental Funds	Proprietary Fund	Total	Fiduciary Activities
Pooled Funds:				
Cash in County Treasury	$262,427,450	$ 34,617,102	$297,044,552	$ -
Cash in County Treasury - restricted for capital projects	43,806,686	-	43,806,686	-
Total pooled funds	306,234,136	34,617,102	340,851,238	-
Deposits:				
Cash on hand and in banks	8,351	-	8,351	1,734,594
Cash in revolving fund	67,514	529	68,043	-
Total deposits	75,865	529	76,394	1,734,594
Investments:				
Cash with Fiscal Agent	13,992,080	767,270	14,759,350	-
Total cash and investments	$320,302,081	$ 35,384,901	$355,686,982	$ 1,734,594

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, 2017, the carrying amount of the District's accounts was $1,887,382 and the bank balance was $1,798,936. The total uninsured bank balance at June 30, 2017 was $1,548,936.

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

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

(Continued)

NOTE 2 - CASH AND INVESTMENTS (Continued)

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2017, 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, 2017, 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, 2017 were as follows:

Fund	Interfund Receivables	Interfund Payables
Major Funds:		
General	$ 4,193,005	$ 17,842,754
Building	41,950	-
Special Reserve for Capital Outlay Projects	8,079,078	37
Non-Major Funds:		
Charter School	299,583	559,302
Adult Education	-	124,267
Child Development	-	254,814
Cafeteria	1,222	815,948
Deferred Maintenance	7,800,000	-
Capital Facilities	1,700,000	-
County Schools Facilities	-	79,078
Bond Interest Redemption	-	1,830,000
Debt Service	1,830,000	2,438,638
Totals	$ 23,944,838	$ 23,944,838

(Continued)

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 2016-2017 fiscal year were as follows:

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 Deferred Maintenance Fund for school maintenance projects.	5,800,000
Transfer from the General Fund to the Charter School Fund for SECA and HCA payments.	117,892
Transfer from the General Fund to the Capital Facilities Fund to pay 2007 COPS.	1,700,000
Transfer from the Charter School Fund to the General Fund for loan repayment.	250,000
Transfer from the Charter School Fund to the General Fund for indirect costs.	940
Transfer from the Adult Education Fund to the General Fund for indirect costs.	123,156
Transfer from the Child Development Fund to the General Fund for indirect costs.	248,035
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	814,456
Transfer from the Deferred Maintenance Fund to the Capital Outlay Projects Fund for the Madison ES project.	1,171,530
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Projects Fund for school facilities administrative projects.	79,078
Transfer from the Special Reserve for Capital Outlay Projects Fund to the Building Fund for the Pulliam ES project.	741,529
Transfer from the Special Reserve for Capital Outlay to the General Fund for the Franklin HS and Stagg HS projects.	20,322
Transfer from the Special Reserve for Capital Outlay to the Deferred Maintenance Fund for the Roosevelt ES, Hazelton ES, Monroe ES, and Franklin HS projects.	2,783,915
Transfer from the the Bond Interest and Redemption Fund to the Debt Service Fund related to sinking fund deposit.	1,070,000
	$ 22,920,853

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2017 is shown below:

Governmental Activities	Balance July 1, 2016	Additions	Transfers and Deductions	Balance June 30, 2017
Non-depreciable:				
Land	$ 25,735,353	$ -	$ -	$ 25,735,353
Work-in-process	50,066,225	23,449,716	(4,783,028)	68,732,913
Depreciable:				
Buildings	688,462,440	-	3,960,672	692,423,112
Site improvements	9,754,671	-	757,086	10,511,757
Equipmentt	19,601,665	256,816	358,455	19,500,026
Totals, at cost	793,620,354	23,706,532	293,185	816,903,161
Less accumulated depreciation:				
Buildings	(197,562,883)	(14,108,540)	-	(211,671,423)
Site improvements	(4,852,830)	(404,450)	-	(5,257,280)
Equipment	(16,023,935)	(1,109,290)	(358,455)	(16,774,770)
Total accumulated depreciation	(218,439,648)	(15,622,280)	(358,455)	(233,703,473)
Capital assets, net	$ 575,180,706	$ 8,084,252	$ (65,270)	$ 583,199,688

Depreciation expense was charged to governmental activities as follows:

Instruction	$ 14,536,164
Home-to-School Transportation	836,440
Food Services	53,081
All Other General Administration	81,609
Centralized Data Processing	62,851
Plant services	52,135
Total depreciation expense	$ 15,622,280

At June 30, 2017, the District had capital assets acquired from capital leases with an original cost of $105,824. The accumulated depreciation was $21,165 on these assets.

(Continued)

NOTE 5 - RISK MANAGEMENT/CLAIMS LIABILITIES

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

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

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

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

	June 30, 2016	June 30, 2017
Unpaid claim and claim adjustment expenses, beginning of year	$ 19,992,000	$ 19,828,000
Total incurred claims and claim adjustment expenses	2,604,404	2,864,156
Total payments	(2,768,404)	(2,768,404)
Total unpaid claims and claim adjustment expenses at end of year	$ 19,828,000	$ 19,923,752

(Continued)

NOTE 6 - LONG-TERM LIABILITIES

General Obligation Bonds

Series 2007:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 2,150,000	$ 2,179,863	$ 4,329,863

2008 Series B:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ -	$ 351,276	$ 351,276
2019	-	351,276	351,276
2020	-	351,276	351,276
2021	-	351,276	351,276
2022	-	351,276	351,276
2023-2026	16,040,000	1,053,828	17,093,828
	$ 16,040,000	$ 2,810,208	$ 18,850,208

2008 Series C:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 855,000	$ 843,197	$ 1,698,197
2019	960,000	791,920	1,751,920
2020	1,190,000	728,595	1,918,595
2021	1,195,000	656,088	1,851,088
2022	1,210,000	579,051	1,789,051
2023-2027	6,350,000	1,611,838	7,961,838
2028	1,340,000	47,436	1,387,436
	$ 13,100,000	$ 5,258,125	$ 18,358,125

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2008 Series D:

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

Year Ended June 30,	Principal	Interest	Total
2023-2027	$ 3,415,604	$ 4,839,396	$ 8,255,000
2028-2032	3,193,500	31,478,615	34,672,115
2033-2037	7,348,165	59,454,185	66,802,350
2038-2042	4,925,620	60,171,730	65,097,350
2043-2047	3,802,691	55,338,859	59,141,550
2048-2051	20,936,783	60,522,752	81,459,535
	$ 43,622,363	$ 271,805,537	$ 315,427,900

2011 Refunding Bonds:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 2,205,000	$ 355,650	$ 2,560,650
2019	2,280,000	267,450	2,547,450
2020	2,360,000	176,250	2,536,250
2021	1,165,000	58,250	1,223,250
	$ 8,010,000	$ 857,600	$ 8,867,600

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2012 Refunding Bonds:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 1,035,000	$ 1,711,500	$ 2,746,500
2019	1,090,000	1,659,750	2,749,750
2020	1,140,000	1,605,250	2,745,250
2021	2,405,000	1,548,250	3,953,250
2022	3,655,000	1,428,000	5,083,000
2023-2027	19,755,000	4,206,750	23,961,750
2028-2029	5,150,000	302,500	5,452,500
	$ 34,230,000	$ 12,462,000	$ 46,692,000

2012 Reauthorization, Series A:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ -	$ 2,794,131	$ 2,794,131
2019	-	2,794,131	2,794,131
2020	-	2,794,131	2,794,131
2021	260,000	2,787,631	3,047,631
2022	380,000	2,771,631	3,151,631
2023-2027	4,055,000	13,381,781	17,436,781
2028-2032	8,750,000	11,893,763	20,643,763
2033-2037	15,020,000	9,383,597	24,403,597
2038-2042	24,115,000	4,680,988	28,795,988
2043	6,205,000	151,588	6,356,588
	$ 58,785,000	$ 53,433,372	$ 112,218,372

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2014A Refunding Bonds:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ -	$ 1,594,275	$ 1,594,275
2019	-	1,594,275	1,594,275
2020	-	1,594,275	1,594,275
2021	510,000	1,584,075	2,094,075
2022	595,000	1,561,975	2,156,975
2023-2027	4,475,000	7,276,825	11,751,825
2028-2032	7,780,000	5,770,625	13,550,625
2033-2037	12,315,000	3,352,375	15,667,375
2038-2040	9,945,000	615,300	10,560,300
	$ 35,620,000	$ 24,944,000	$ 60,564,000

2014B Refunding Bonds:

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 355,000	$ 26,340	$ 381,340
2019	530,000	18,962	548,962
2020	600,000	6,990	606,990
	$ 1,485,000	$ 52,292	$ 1,537,292

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Election 2012, Series B

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 2,630,000	$ 1,066,713	$ 3,696,713
2019	440,000	935,213	1,375,213
2020	575,000	913,212	1,488,212
2021	460,000	884,462	1,344,462
2022	530,000	861,463	1,391,463
2023-2027	3,435,000	3,861,313	7,296,313
2028-2032	5,065,000	2,965,163	8,030,163
2033-2037	7,085,000	2,028,888	9,113,888
2038-2041	7,325,000	658,174	7,983,174
	$ 27,545,000	$ 14,174,601	$ 41,719,601

Election 2014, Series A (Ed-Tech Bonds)

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 3,170,000	$ 321,500	$ 3,491,500
2019	3,260,000	163,000	3,423,000
	$ 6,430,000	$ 484,500	$ 6,914,500

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

2016 Refunding Bonds

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

Year Ended June 30,	Principal	Interest	Total
2018	$ 2,935,000	$ 6,110,675	$ 9,045,675
2019	5,205,000	5,962,550	11,167,550
2020	5,550,000	5,747,450	11,297,450
2021	5,805,000	5,491,325	11,296,325
2022	6,320,000	5,188,200	11,508,200
2023-2027	38,355,000	20,604,625	58,959,625
2028-2032	59,915,000	9,118,625	69,033,625
2033	3,890,000	58,350	3,948,350
	$ 127,975,000	$ 58,281,800	$ 186,256,800

At June 30, 2017, $146,305,000 of bonds outstanding are considered defeased.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

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

Scheduled payments for the COPs are as follows:

Year Ending June 30,	COPs Payments
2018	$ 2,619,640
2019	2,622,640
2020	2,622,640
2021	2,619,640
2022	2,619,275
2023-2027	13,088,319
2028-2032	13,096,625
2033-2036	10,475,225
Total payments	49,764,004
Less amount representing interest	(16,609,004)
Net present value of minimum payments	$ 33,155,000

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

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Post-Employment Healthcare Benefits: In addition to the pension benefits described in Notes 8 and 9, the District provides a single-employer defined benefit healthcare plan to all employees who retire from the District on or after attaining age 55 with at least 10 years of service, in accordance with contracts between the District and employee groups. As of June 30, 2017, 666 retirees met these eligibility requirements. Benefits are provided for retirees age 55 to 65. The District pays up to $1,095 per month for health benefits of retirees on a pay-as-you-go basis. The plan does not issue separate financial statements.

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

Annual required contribution	$ 7,835,569
Interest on net OPEB obligation	1,243,010
Adjustment to annual required contribution	(1,353,587)
Annual OPEB cost (expense)	7,724,992
Contributions made	(5,455,359)
Increase in net OPEB obligation	2,269,633
Net OPEB obligation - beginning of year	27,622,462
Net OPEB obligation - end of year	$ 29,892,095

See also the Required Supplementary Information.

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and preceding two years were as follows:

Fiscal Year Ended	Percentage of Annual Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 7,130,674	67.7%	$ 25,149,397
June 30, 2016	$ 7,734,895	68.0%	$ 27,622,462
June 30, 2017	$ 7,724,995	70.6%	$ 29,892,095

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

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

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

In the December 1, 2015 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 2.75 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 25 years.

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

(Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2017 is shown below:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	$ 389,262,363	$ -	$ 14,270,000	$ 374,992,363	$ 15,335,000
General Obligation Bonds Premium	35,425,669	-	3,165,512	32,260,157	2,451,434
Accreted interest	17,437,666	4,570,846	-	22,008,512	-
Certificates of Participation	34,240,000	-	1,085,000	33,155,000	1,140,000
Certificates of Participation Premium	119,875	-	6,095	113,780	6,096
Qualified Zone Academy Bonds	5,000,000	-	-	5,000,000	-
Redevelopment Agency Repayment	242,185	-	242,185	-	-
Net pension liability (Notes 8 and 9)	294,675,000	66,935,000	-	361,610,000	-
Post-employment healthcare benefits	27,622,462	7,724,992	5,455,359	29,892,095	-
Compensated absences	2,343,240	292,477	-	2,635,717	-
	$ 806,368,460	$ 79,523,315	$ 24,224,151	$ 861,667,624	$ 18,932,530

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

(Continued)

NOTE 7 - FUND BALANCE

Fund balances, by category, at June 30, 2017 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	$ -	$ -	$ 2,500	$ 66,412
Prepaid expenditures	42,075	-	-	6,131	48,206
Stores inventory	756,932	-	-	609,925	1,366,857
Subtotal nonspendable	862,919	-	-	618,556	1,481,475
Restricted:					
Legally restricted programs	13,522,086	-	-	30,551,780	44,073,866
Capital projects	-	57,412,333	49,885,781	4,039,308	111,337,422
Debt service	-	-	-	39,602,994	39,602,994
Subtotal restricted	13,522,086	57,412,333	49,885,781	74,194,082	195,014,282
Assigned:					
Economic forecast	56,942,243	-	-	-	56,942,243
One month payroll	26,468,546	-	-	-	26,468,546
Operational initiatives	6,000,000	-	-	-	6,000,000
One time - mandated costs	24,052,576	-	-	-	24,052,576
One time - lottery	5,952,076	-	-	-	5,952,076
Subtotal assigned	119,415,441	-	-	-	119,415,441
Unassigned:					
Designated for economic uncertainty	8,428,896	-	-	-	8,428,896
Total fund balances	$ 142,229,342	$ 57,412,333	$ 49,885,781	$ 74,812,638	$ 324,340,094

(Continued)

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

General Information about the State Teachers' Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

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

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.

NOTE 8 – 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 2016-17. 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 2016-17.

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

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

Employers – 12.58 percent of applicable member earnings.

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

The CalSTRS employer contribution rate increases effective for fiscal year 2016-17 through fiscal year 2045-46 are summarized in the table below:

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

The District contributed $22,604,934 to the plan for the fiscal year ended June 30, 2017.

State - 8.828 percent of the members’ creditable earnings from the fiscal year ending in the prior calendar year.

(Continued)

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

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 2046-2047. The CalSTRS state contribution rates effective for fiscal year 2016-17 and beyond are summarized in the table below.

As shown in the subsequent table, the state rate will increase to 4.811 percent on July 1, 2017, 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.

Effective Date	Base Rate	AB 1469 Increase For 1990 Benefit Structure	SBMA Funding (1)	Total State Appropriation to DB Program
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017	2.017%	4.811%(2)	2.50%	9.328%
July 01, 2018 to June 30, 2046	2.017%	(3)	2.50%	(3)
July 01, 2046 and thereafter	2.017%	(3)	2.50%	4.571%(3)

(1)This rate does not include the $72 million reduction in accordance with Education Code Section 22954.
(2)During its April 2017 meeting, the board of CalSTRS exercised its limited authority to increase the state contribution rate by 0.5 percent of the payroll effective July 1, 2017.
(3)The CalSTRS board has limited authority to adjust state contribution rates from July 1, 2017, 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. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 2017, 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	$ 264,825,000
State's proportionate share of the net pension liability associated with the District	150,775,000
Total	$ 415,600,000

(Continued)

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2016, the District's proportion was 0.327 percent, which was an increase of 0.007 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $39,241,998 and revenue of $13,295,797 for support provided by the State. At June 30, 2017, 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	$ -	$ 6,460,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	21,053,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	4,395,000	2,191,000
Contributions made subsequent to measurement date	22,604,934	-
Total	$ 48,052,934	$ 8,651,000

$22,604,934 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2018	$ (392,933)
2019	$ (392,933)
2020	$ 11,288,316
2021	$ 7,012,150
2022	$ (884,600)
2023	$ 167,000

(Continued)

NOTE 8 – 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, 2016 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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2006 through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis and June 30, 2015 Actuarial Program Valuations for more information.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2012 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:

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
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

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

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

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

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's proportionate share of the net pension liability	$381,143,000	$264,825,000	$168,218,000

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

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

General Information about the Public Employer's Retirement Fund B

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

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at https://www.calpers.ca.gov/docs/forms-publications/cafr-2016.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)

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

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

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

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2017 were as follows:

Members - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2016-17.

Employers - The employer contribution rate was 13.888 percent of applicable member earnings.

The District contributed $8,820,616 to the plan for the fiscal year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of $96,785,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2016, the District's proportion was 0.474 percent, which was a decrease of 0.019 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $10,997,120. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 4,024,000	$ 22,000
Changes of assumptions	-	2,907,000
Net differences between projected and actual earnings on investments	14,990,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,992,000	4,857,000
Contributions made subsequent to measurement date	8,820,616	-
Total	$ 29,826,616	$ 7,786,000

(Continued)

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

$8,820,616 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	
2018	$ 2,736,861
2019	$ 744,861
2020	$ 5,826,078
2021	$ 3,912,200

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, 2016 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, 2015, 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, 2015
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

(Continued)

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

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

Asset Class	Long-Term* Assumed Asset Allocation	Expected Real Rate of Return
Global Equity	51%	5.25%
Global Debt Securities	20	0.99
Inflation Assets	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	1	(0.55)

* 10-year geometric average

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

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

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

(Continued)

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

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

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District's proportionate share of the net pension liability	$ 144,420,000	$ 96,785,000	$ 57,139,000

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

NOTE 10 – JOINT POWERS AGREEMENTS

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

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

Condensed audited financial information for NCReLiEF for the year ended June 30, 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)

NOTE 11 – CONTINGENCIES

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

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

Construction Commitments: At June 30, 2017, the District had approximately $44 million in outstanding commitments on construction contracts.

NOTE 12 - SUBSEQUENT EVENTS

In October 2017, the District purchased Lakeivew Assembly Church and School located at 2111 Quail Lakes Drive, Stockton, California for $9,675,000. The property will be developed by the District as it expands its operations.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2017

	Budget Original	Budget Final	Actual	Variance Favorable (Unfavorable)
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	$ 288,345,586	$ 299,615,958	$ 294,946,786	$ (4,669,172)
Local sources	42,577,356	36,582,858	39,897,747	3,314,889
Total LCFF	330,922,942	336,198,816	334,844,533	(1,354,283)
Federal sources	37,086,114	56,660,295	38,909,316	(17,750,979)
Other state sources	44,871,283	62,258,500	69,363,904	7,105,404
Other local sources	5,559,316	6,455,389	10,390,042	3,934,653
Total revenues	418,439,655	461,573,000	453,507,795	(8,065,205)
Expenditures:				
Current:				
Certificated salaries	166,692,300	179,947,075	173,865,837	6,081,238
Classified salaries	60,026,949	61,808,404	59,917,722	1,890,682
Employee benefits	106,045,585	114,691,115	118,405,603	(3,714,488)
Books and supplies	29,194,575	50,946,468	20,884,654	30,061,814
Contract services and operating expenditures	40,342,317	49,684,753	41,624,579	8,060,174
Other outgo	119,613	49,704	678,491	(628,787)
Capital outlay	6,013,668	2,854,795	1,289,822	1,564,973
Total expenditures	408,435,007	459,982,314	416,666,708	43,315,606
Excess of revenues over expenditures	10,004,648	1,590,686	36,841,087	35,250,401
Other financing sources (uses):				
Transfers in	250,000	270,322	1,456,909	1,186,587
Transfers out	(16,700,000)	(16,817,892)	(15,617,892)	1,200,000
Total other financing sources (uses)	(16,450,000)	(16,547,570)	(14,160,983)	2,386,587
Change in fund balance	(6,445,352)	(14,956,884)	22,680,104	37,636,988
Fund balance, July 1, 2016	119,549,238	119,549,238	119,549,238	-
Fund balance, June 30, 2017	$ 113,103,886	$ 104,592,354	$ 142,229,342	$ 37,636,988

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
For the Year Ended June 30, 2017

Schedule of Funding Progress

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

(Continued)

State Teachers' Retirement Plan
Last 10 Fiscal Years

	2015	2016	2017
District's proportion of the net pension liability	0.325%	0.320%	0.327%
District's proportionate share of the net pension liability	$189,746,000	$215,767,000	$264,825,000
State's proportionate share of the net pension liability associated with the District	114,578,000	114,117,000	150,775,000
Total net pension liability	$304,324,000	$329,884,000	$415,600,000
District's covered payroll	$144,623,000	$148,755,000	$163,180,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%

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, 2017**

Public Employer's Retirement Fund B
Last 10 Fiscal Years

	2015	2016	2017
District's proportion of the net pension liability	0.503%	0.493%	0.474%
District's proportionate share of the net pension liability	$ 59,175,446	$ 78,908,000	$ 96,785,000
District's covered payroll	$ 54,130,000	$ 59,697,000	$ 59,198,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	109.32%	132.18%	163.49%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%

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.

State Teachers' Retirement Plan
Last 10 Fiscal Years

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

All years prior to 2015 are not available.

(Continued)

Public Employer's Retirement Fund B
Last 10 Fiscal Years

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

All years prior to 2015 are not available.

See note to required supplementary information.

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.

Excess of expenditures over appropriations in individual funds for the year ended June 30, 2017 were as follows:

Employee benefits	$ 3,714,488

B - Schedule of Other Postemployment Benefits Funding Progress

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

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

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

D - Schedule of the District's Contributions

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

E- Changes of Benefit Terms

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

F - Changes of Assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50, 7.65 and 7.65 percent in the June 30, 2013, 2014 and 2015 actuarial reports, respectively. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NON-MAJOR FUNDS
June 30, 2017

	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	$ 11,531,909	$ 1,610,515	$ 42,168	$ 7,054,122	$ 1,261,080	$ 2,284,386	$ 78,876	$ 30,864,471	$ -	$ 54,727,527
Cash on hand and in banks	-	2,000	-	6,351	-	-	-	-	-	8,351
Cash in revolving fund	582	520	-	2,500	-	-	-	-	-	3,602
Cash with Fiscal Agent	-	-	-	-	-	-	-	-	12,351,925	12,351,925
Receivables	446,723	471,428	353,318	2,359,324	3,528	57,060	202	69,693	1,181	3,762,457
Store inventory	-	-	-	609,925	-	-	-	-	-	609,925
Due from other funds	299,583	-	-	1,222	7,800,000	1,700,000	-	-	1,830,000	11,630,805
Prepaid expenditures	1,375	-	-	6,131	-	-	-	-	-	7,506
Total assets	$ 12,280,172	$ 2,084,463	$ 395,486	$ 10,039,575	$ 9,064,608	$ 4,041,446	$ 79,078	$ 30,934,164	$ 14,183,106	$ 83,102,098
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	$ 203,708	$ 239,224	$ 32,514	$ 150,319	$ 260,525	$ 2,138	$ -	$ 1,245,638	$ -	$ 2,134,066
Unearned revenue	53,347	-	-	-	-	-	-	-	-	53,347
Due to other funds	559,302	124,267	254,814	815,948	-	-	79,078	1,830,000	2,438,638	6,102,047
Total liabilities	816,357	363,491	287,328	966,267	260,525	2,138	79,078	3,075,638	2,438,638	8,289,460
Fund balances:										
Nonspendable	-	-	-	618,556	-	-	-	-	-	618,556
Restricted	11,463,815	1,720,972	108,158	8,454,752	8,804,083	4,039,308	-	27,858,526	11,744,468	74,194,082
Total fund balances	11,463,815	1,720,972	108,158	9,073,308	8,804,083	4,039,308	-	27,858,526	11,744,468	74,812,638
Total liabilities and fund balances	$ 12,280,172	$ 2,084,463	$ 395,486	$ 10,039,575	$ 9,064,608	$ 4,041,446	$ 79,078	$ 30,934,164	$ 14,183,106	$ 83,102,098

STOCKTON UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
ALL NON-MAJOR FUNDS
For the Year Ended June 30, 2017

	Charter School Fund (09)	Adult Education Fund (11)	Child Development Fund (12)	Cafeteria Fund (13)	Deferred Maintenance 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	$ 20,590,156	$ -	$ -	$ -	$ 2,000,000	$ -	$ -	$ -	$ -	$ 22,590,156
Federal sources	-	1,145,702	-	15,807,847	-	-	-	-	-	16,953,549
Other state sources	2,472,507	3,241,218	5,742,935	1,233,174	-	-	-	342,634	-	13,032,468
Other local sources	118,919	41,687	193,119	448,117	14,784	2,695,011	18,473	35,353,299	458,811	39,342,220
Total revenues	$ 23,181,582	4,428,607	5,936,054	17,489,138	2,014,784	2,695,011	18,473	35,695,933	458,811	91,918,393
Expenditures:										
Current:										
Certificated salaries	8,926,797	1,831,402	1,996,989	-	-	-	-	-	-	12,755,188
Classified salaries	1,035,068	443,968	1,742,998	5,832,771	-	-	-	-	-	9,054,805
Employee benefits	4,970,304	1,005,564	1,743,454	3,190,072	-	-	-	-	-	10,909,394
Books and supplies	790,787	421,246	221,591	8,342,964	-	-	-	-	-	9,776,588
Contract services and operating expenditures	3,723,320	362,423	105,976	289,554	116,281	45,636	-	-	-	4,643,190
Capital outlay	50,914	-	187,049	248,702	2,566,855	-	-	-	-	3,053,520
Debt service:										
Principal retirement	-	-	-	-	-	1,085,000	-	14,270,000	-	15,355,000
Interest	-	-	-	-	-	1,533,890	-	17,939,304	-	19,473,194
Total expenditures	19,497,190	4,064,603	5,998,057	17,904,063	2,683,136	2,664,526	-	32,209,304	-	85,020,879
Excess (deficiency) of revenues over (under) expenditures	3,684,392	364,004	(62,003)	(414,925)	(668,352)	30,485	18,473	3,486,629	458,811	6,897,514
Other financing sources (uses):										
Transfers in	117,892	-	-	-	8,583,915	1,700,000	-	-	1,070,000	11,471,807
Transfers out	(250,940)	(123,156)	(248,035)	(814,456)	(1,171,530)	-	(79,078)	(1,070,000)	-	(3,757,195)
Total other financing sources (uses)	(133,048)	(123,156)	(248,035)	(814,456)	7,412,385	1,700,000	(79,078)	(1,070,000)	1,070,000	7,714,612
Net change in fund balances	3,551,344	240,848	(310,038)	(1,229,381)	6,744,033	1,730,485	(60,605)	2,416,629	1,528,811	14,612,126
Fund balances, July 1, 2016	7,912,471	1,480,124	418,196	10,302,689	2,060,050	2,308,823	60,605	25,441,897	10,215,657	60,200,512
Fund balances, June 30, 2017	$ 11,463,815	$ 1,720,972	$ 108,158	$ 9,073,308	$ 8,804,083	$ 4,039,308	$ -	$ 27,858,526	$ 11,744,468	$ 74,812,638

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

Name	Office	Term Expires
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

Eliseo Davalos, Ph.D
Superintendent

Lisa Grant-Dawson
Chief Business Official

Craig Wells
Assistant Superintendent, Human Resources

Thomas Anderson
Assistant Superintendent, Educational Services

Reyes Gauna
Assistant Superintendent, Educational Support Services

	Second Period Report	Annual Report
DISTRICT		
Certificate #:	12713518	2114EEDB
Elementary:		
Transitional Kindergarten through Third	11,152	11,144
Fourth through Sixth	8,474	8,462
Seventh and Eighth	5,223	5,213
Total Elementary	24,849	24,819
Secondary:		
Ninth through Twelfth	8,238	8,136
Total Secondary	8,238	8,136
	33,087	32,955

	Second Period Report	Annual Report
CHARTER SCHOOL - CLASSROOM BASED		
Certificate #:	44B44CE7	F74F116F
Nightingale Elementary Charter School		
Elementary:		
Transitional Kindergarten through Third	189	189
Fourth through Sixth	126	125
Seventh and Eighth	68	67
Certificate #:	C9B8499E	FFE01105
Pittman Elementary Charter School		
Elementary:		
Transitional Kindergarten through Third	325	323
Fourth through Sixth	191	191
Seventh and Eighth	113	111
Subtotal Classroom Based	1,012	1,006

(Continued)

	Second Period Report	Annual Report
CHARTER SCHOOL - CLASSROOM BASED (Continued)		
Certificate #:	C9D2406E	C5EF262B
Stockton Health Careers Academy		
Secondary:		
Ninth through Twelfth	470	464
Certificate #:	7E8501C5	BF06EFD1
Pacific Law Academy		
Secondary:		
Ninth through Twelfth	184	182
Certificate #:	EA54C3E9	CB144D3D
Stockton Unified Early College Academy		
Secondary:		
Ninth through Twelfth	398	398
Total Classroom Based	2,064	2,050

See accompanying notes to supplementary information.

Grade Level	Statutory Minutes Require-ment	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
DISTRICT				
Kindergarten	36,000	54,000	180	In Compliance
Grade 1	50,400	54,000	180	In Compliance
Grade 2	50,400	54,000	180	In Compliance
Grade 3	50,400	54,000	180	In Compliance
Grade 4	54,000	54,000	180	In Compliance
Grade 5	54,000	54,000	180	In Compliance
Grade 6	54,000	54,000	180	In Compliance
Grade 7	54,000	55,620	180	In Compliance
Grade 8	54,000	55,620	180	In Compliance
Grade 9	64,800	64,836	180	In Compliance
Grade 10	64,800	64,836	180	In Compliance
Grade 11	64,800	64,836	180	In Compliance
Grade 12	64,800	64,836	180	In Compliance
CHARTER SCHOOLS				
Nightingale Elementary Charter School				
Kindergarten	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	59,400	180	In Compliance
Grade 8	54,000	59,400	180	In Compliance
Pittman Elementary Charter School				
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)

Grade Level	Statutory Minutes Require-ment	2016-17 Actual Minutes	Number of Days Traditional Calendar	Status
CHARTER SCHOOLS (Continued)				
Stockton Health Careers Academy				
Grade 9	64,800	64,968	180	In Compliance
Grade 10	64,800	64,968	180	In Compliance
Grade 11	64,800	64,968	180	In Compliance
Grade 12	64,800	64,968	180	In Compliance
Pacific Law Academy				
Grade 9	64,800	65,514	180	In Compliance
Grade 10	64,800	65,514	180	In Compliance
Grade 11	64,800	65,514	180	In Compliance
Grade 12	64,800	65,514	180	In Compliance
Stockton Unified Early College Academy				
Grade 9	64,800	64,828	180	In Compliance
Grade 10	64,800	64,828	180	In Compliance
Grade 11	64,800	64,828	180	In Compliance
Grade 12	64,800	64,828	180	In Compliance

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
	U.S. Department of Education - Passed through California Department of Education		
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	13379	$ 6,441,461
84.027A	Special Education: IDEA Mental Health Allocation Plan, Part B, Sec 611	15197	457,463
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	563,862
84.027A	Special Education: IDEA Mental Health Services, Part B, Sec 611	15321	93,474
84.173	Special Education: IDEA Preschool Grants Part B, Sec 619	13430	204,076
84.173	Special Education: IDEA Preschool Grants Early Intervening Services, Part B, Sec 619	10131	53,641
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Sec 619	13431	2,169
	Subtotal Special Education Cluster		7,816,146
	Adult Education Programs:		
84.002A	Adult Education: Adult Basic Education and Education State Leadership	14110	170,928
84.002	Adult Education: Adult Basic Education & ESL	14508	439,381
84.002	Adult Education: Adult Secondary Education	13978	535,392
	Subtotal Adult Education Programs		1,145,701
84.010	ESEA: Title I, Part A, Basic Grants Low-Income and Neglected	14329	18,301,969
84.186	ESEA:Title IV, Part A, Safe and Drug Free Schools and Communities (SDFSC) - Technical Assistance	14378	1,118,130
84.060	Indian Education	10011	334,989
84.367	ESEA: Title II, Part A Improving Teacher Quality Local Grants	14341	2,694,244
84.365	ESEA Title III, Limited English Proficiency	14346	875,289
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	411,425
84.181	Special Education: IDEA Early Intervention Grants	24314	67,389
	Total U.S. Department of Education		32,765,282

(Continued)

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expend-itures
U.S. Department of Health and Human Services - Passed through California Department of Education			
93.600	Head Start	10016	5,978,738
94.006	ROTC	*	68,675
	Medi-Cal Programs - Medicaid Cluster		
93.778	Medi-Cal Administrative Activities (MAA) Claims	*	75,265
93.778	Medi-Cal Billing Option	10013	857,341
	Subtotal Medi-Cal Programs		932,606
	Total U.S. Department of Health and Human Services		6,980,019
U.S. Department of Agriculture - Passed through California Department of Education			
10.555	National School Lunch Program - School Nutrition Cluster	13396	15,781,397
10.558	Child Nutrion: CACFP Claims - Centers and Family Day Care	13393	26,450
	Total Federal Programs		$ 55,553,148

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

	Debt Service Fund
June 30, 2017 Unaudited Actual Financial Reporting Ending Fund Balance:	$ 11,289,468
Audit adjustment to for prior year correction.	455,000
June 30, 2017 Audit Financial Statements Ending Fund Balance	$ 11,744,468

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

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2017
(UNAUDITED)

General Fund	(Budget) 2018	2017	2016	2015
Revenues and other financing sources	$ 444,240,236	$ 453,507,795	$ 430,605,506	$ 372,509,144
Expenditures	444,090,378	416,666,708	373,901,360	342,989,746
Other uses and transfers out	12,175,000	14,160,983	16,735,745	15,029,202
Total outgo	456,265,378	430,827,691	390,637,105	358,018,948
Change in fund balance	$ (12,025,142)	$ 22,680,104	$ 39,968,401	$ 14,490,196
Ending fund balance	$ 130,204,200	$ 142,229,342	$ 119,549,238	$ 79,580,837
Available reserves	$ 9,131,808	$ 8,428,896	$ 12,101,813	$ 58,814,829
Designated for economic uncertainties	$ 9,131,808	$ 8,428,896	$ 7,792,332	$ 7,140,284
Undesignated fund balance	$ -	$ -	$ 4,309,481	$ 51,674,545
Available reserves as percentages of total outgo	2.0%	2.0%	3.1%	16.43
All Funds				
Total long-term liabilities	$ 842,735,094	$ 861,667,624	$ 806,368,460	$ 720,618,123
Average daily attendance at P-2, excluding Charter School	33,180	33,087	32,766	32,754

The General Fund fund balance has increased by $77,138,701 over the past three years. The fiscal year 2017-2018 budget projects a decrease of $12,025,142. 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, 2017, the District has met this requirement.

The District has incurred operating surpluses in each of the past three years, and anticipates incurring an operating deficit during the fiscal year ending June 30, 2018.

Total long-term liabilities have increased by $141,049,501 over the past two years, due primarily to the addition of General Obligation Bonds and net pension liability.

Average daily attendance has increased by 333 over the past two years. The District anticipates an increase of 93 ADA for the 2017-2018 fiscal year.

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
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

NOTE 1 - PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

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

C - Schedule of Expenditure of Federal Awards

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

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2017.

Description	CFDA Number	Amount
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		$ 55,862,865
Less: Medi-Cal Billing Option not spent	93.778	(309,717)
Total Schedule of Expenditure of Federal Awards		$ 55,553,148

*Program name not available.

(Continued)

NOTE 1 - PURPOSE OF SCHEDULES (Continued)

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

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

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2017-2018 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, 2017, 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 *2016-17 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, 2017.

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

(Continued)

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

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

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

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

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

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

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

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Stockton Unified School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State of California's *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Stockton Unified School District's compliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion with State Laws and Regulations

In our opinion, Stockton Unified School District complied, in all material respects, with the state laws and regulations referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2017.

(Continued)

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 *2016-17 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise Stockton Unified School District's basic financial statements, and have issued our report thereon dated December 13, 2017.

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 2017-001.

(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 Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2017

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, 2017. Stockton Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Stockton Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

(Continued)

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 13, 2017

FINDINGS AND RECOMMENDATIONS

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555	National School Lunch Program
84.367	ESEA: Title II, Part A Improving Teacher Quality Local Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,666,594	
Auditee qualified as low-risk auditee?	X Yes	______ No

STATE AWARDS

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

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 DEFICIENCY - INTERNAL CONTROL - ASSOCIATED STUDENT BODY (30000)

Criteria

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

At Pulliam Elementary School a dual count is not being documented when funds are turned into the office.

Effect

ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

Based on the deficiency identified above, we recommend cash count forms should be performed evidencing dual count of funds for receipt of funds.

Views of Responsible Officials and Planned Corrective Actions

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

(Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STATUS OF PRIOR YEAR

FINDINGS AND RECOMMENDATIONS

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2016-001		
Condition: At Spanos Elementary, one student was improperly included for a total misstatement of one day.	Implemented.	
Recommendation: The District should enforce controls to ensure accurate accounting for attendance.		