

STOCKTON UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2020

STOCKTON UNIFIED SCHOOL DISTRICT
 FINANCIAL STATEMENTS
 WITH SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET POSITION	18
STATEMENT OF ACTIVITIES.....	19
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET – GOVERNMENTAL FUNDS	20
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET - TO THE STATEMENT OF NET POSITION	21
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	22
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS – TO THE STATEMENT OF ACTIVITIES	23
STATEMENT OF NET POSITION – PROPRIETARY FUND – SELF-INSURANCE FUND.....	25
STATEMENT OF CHANGE IN NET POSITION – PROPRIETARY FUND – SELF- INSURANCE FUND	26
STATEMENT OF CASH FLOWS – PROPRIETARY FUND– SELF-INSURANCE FUND.....	27
STATEMENT OF FIDUCIARY NET POSITION - TRUST AND AGENCY FUNDS.....	28
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION – TRUST FUNDS.....	29
NOTES TO FINANCIAL STATEMENTS.....	30
REQUIRED SUPPLEMENTARY INFORMATION:	
GENERAL FUND BUDGETARY COMPARISON SCHEDULE	64
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY.....	65
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	66

STOCKTON UNIFIED SCHOOL DISTRICT
FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
For the Year Ended 6/30/2020
(Continued)

CONTENTS

SCHEDULE OF THE DISTRICT'S CONTRIBUTION	67
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION	69
SUPPLEMENTARY INFORMATION:	
COMBINING BALANCE SHEET – ALL NON-MAJOR FUNDS	70
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES - ALL NON-MAJOR FUNDS	71
ORGANIZATION	72
SCHEDULE OF AVERAGE DAILY ATTENDANCE.....	73
SCHEDULE OF INSTRUCTIONAL TIME	75
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS.....	77
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS.....	79
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS - UNAUDITED.....	88
SCHEDULE OF CHARTER SCHOOLS.....	81
NOTES TO SUPPLEMENTARY INFORMATION.....	82
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	84
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 <i>GOVERNMENT AUDITING STANDARDS</i>	87
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	89
FINDINGS AND RECOMMENDATIONS:	
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS.....	91
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS.....	95

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, 2020, 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.

(Continued)

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, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 17, the General Fund Budgetary Comparison Schedule, the Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability, Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of the District's Contributions on pages 63 to 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2021 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 the effectiveness of Stockton Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stockton Unified School District's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Sacramento, California
March 30, 2021



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2020, 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, 2020, the total net position of the District was (\$4.4 million), a decrease of \$23.6 million from the prior year.
- Total government-wide revenue for the 2020 fiscal year was \$466.5 million. Expenditures totaled \$490.1 million. The difference of \$23.6 million accounts for the decrease to the District's total net position.
- Capital assets, net of depreciation, increased by \$51.2 million during the year. This includes the completion of a number of projects previously in the Construction in Progress account. Capital asset projects completed during the year include the installation of portable classrooms at Kennedy Elementary, the modernization of Cleveland Elementary, the completion of Head Start construction at Grunsky, Harrison and King Elementary schools, and the completion of site irrigation, fencing and video surveillance projects at a number of District school sites. At the end of the 2019-20 year, total funds expended on projects in the construction phase totaled \$111.5 million.
- At June 30, long-term debt totaled \$1.1 billion. During the year, the District issued Election of 2018 General Obligation Bonds, Series A, totaling \$30 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, 2020 and 2019 is presented by category in the table below:

	Government-Wide Activities		Year Over
	2020	2019	Year Change
Assets			
Cash and investments	\$ 303,356,861	\$ 349,053,732	\$ (45,696,871)
Receivables	86,607,433	40,927,559	45,679,874
Prepaid expenses	58,392	175,396	(117,004)
Stores inventory	2,173,824	1,177,086	996,738
Non-depreciable capital assets	147,470,288	111,020,367	36,449,921
Capital assets, net of depreciation	547,910,587	533,237,829	14,672,758
Total Assets	<u>1,087,577,385</u>	<u>1,035,591,969</u>	<u>51,985,416</u>
Deferred Outflows of Resources			
Deferred outflows of resources - pensions	172,941,864	160,177,876	12,763,988
Deferred outflows of resources - OPEB	9,087,771	1,429,473	7,658,298
Deferred loss from refunding of debt	23,458,693	24,880,478	(1,421,785)
Total Deferred Outflows	<u>205,488,328</u>	<u>186,487,827</u>	<u>19,000,501</u>
Liabilities			
Accounts payable	45,478,990	35,942,645	9,536,345
Other current liabilities	17,034,151	11,095,396	5,938,755
Long-term liabilities	1,188,539,901	1,125,763,058	62,776,843
Total Liabilities	<u>1,251,053,042</u>	<u>1,172,801,099</u>	<u>78,251,943</u>
Deferred Inflows of Resources			
Deferred inflows of resources - pensions	<u>46,444,517</u>	<u>30,087,000</u>	<u>16,357,517</u>
Net Position			
Net investment in capital assets	253,091,009	259,086,916	(5,995,907)
Restricted	95,370,840	128,845,201	(33,474,361)
Unrestricted	(352,893,695)	(368,740,420)	15,846,725
Total net position	<u>\$ (4,431,846)</u>	<u>\$ 19,191,697</u>	<u>\$ (23,623,543)</u>

Total assets and deferred outflows increased by a net \$71 million during the 2020 fiscal year. Of this total, cash and receivables decreased by a net \$16 thousand and total capital assets increased by a net \$51 million. Deferred outflows of resources increased by a net \$19 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 \$94.6 million. Of this amount, accounts payable and other current liabilities increased by \$15 million, while long-term debt increased by \$62.7 million. Deferred inflows increased by \$16 million. Long-term debt is discussed in detail in a later section of this report.

The net increase to assets of \$71 million, reduced by the increase of \$94.6 million to liabilities results in a decrease to the District's net position at June 30, 2020 of \$23.6 million.

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

	Government-Wide Activities		Year Over
	2020	2019	Year Change
Revenues - Program			
Charges for Services	\$ 3,184,994	\$ 269,398	\$ 2,915,596
Operating Grants and Contributions	156,287,508	184,267,495	(27,979,987)
Capital Grants and Contributions	-	-	-
Revenues - General			
Unrestricted Federal and State Aid	355,826,680	347,582,227	8,244,453
Taxes Levied for General Purposes	59,782,050	57,726,206	2,055,844
Taxes Levied for Debt Service	40,976,230	28,070,059	12,906,171
Taxes Levied for Other Specific Purposes	2,002,719	1,942,380	60,339
Interest and Investment Earnings	2,352,092	5,041,817	(2,689,725)
Other General Revenues	5,549,987	7,832,631	(2,282,644)
Total revenues	<u>625,962,260</u>	<u>632,732,213</u>	<u>(6,769,953)</u>
Expenses			
Instruction	352,569,624	388,200,571	(35,630,947)
Pupil and Instructional Services	180,874,227	168,259,283	12,614,944
General Administration	19,467,495	23,767,194	(4,299,699)
Plant Services	67,374,553	60,752,787	6,621,766
Ancillary Serv., Enterprise Activ., Other	-	-	-
Outgo, and Interest on Long-Term Liab.	29,299,904	29,368,423	(68,519)
Total Expenses	<u>649,585,803</u>	<u>670,348,258</u>	<u>(20,762,455)</u>
Increase in Net Position	(23,623,543)	(37,616,045)	13,992,502
Net Position, July 1	<u>19,191,697</u>	<u>56,807,742</u>	<u>(37,616,045)</u>
Net Position, June 30	<u>(4,431,846)</u>	<u>19,191,697</u>	<u>(23,623,543)</u>

For the 2019-20 fiscal year, total District revenues were \$625.9 million. Total District expenses were \$649.5 million. The difference, \$23.6 million, is a decrease to net position at June 30, 2020.

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, decreased slightly during the 2019-20 year when compared with the prior school year. Enrollment at the end of the second school month was 35,313 students, a decrease of 170 students from the 2018-2019 year. When District charter school enrollment is included in the totals, enrollment decreased by 165 students.

Average Daily Attendance (ADA) also showed a decrease during the 2019-20 year. The ADA for the Second Principal Apportionment (P-2) period totaled 32,923, a decrease of 131 ADA from the prior fiscal year. The District is continuing to work to improve student attendance.

Financial Analysis of the District's Funds

At June 30, 2020 the District had eleven governmental funds reporting a combined fund balance of \$285.1 million, a decrease of \$22.6 million over the prior year. Of these funds, eight had revenues which exceeded expenditures, and three funds showed expenditures exceeding revenues. The following table details the fund balances of the individual governmental funds.

Governmental Funds – Fund Balance

	Fund Balance - June 30,		Year Over Year Change
	2020	2019	
General Fund	\$ 137,508,470	\$ 112,074,655	\$ 25,433,815
Charter Schools Special Revenue Fund	21,534,021	16,683,214	4,850,807
Adult Education Fund	1,520,866	1,551,020	(30,154)
Child Development Fund	1,008,582	42,305	966,277
Cafeteria Special Revenue Fund	8,496,183	6,690,533	1,805,650
Deferred Maintenance Fund	2,232,250	2,172,181	60,069
Building Fund	60,323,937	7,493,693	52,830,244
Capital Facilities Fund	6,085,296	5,961,739	123,557
Special Reserve for Capital Outlay Projects	9,444,420	53,397,959	(43,953,539)
Bond Interest and Redemption Fund	26,114,592	92,083,127	(65,968,535)
Debt Service Fund	10,913,642	9,594,425	1,319,217
Totals	<u>\$ 285,182,259</u>	<u>\$ 307,744,851</u>	<u>\$ (22,562,592)</u>

General Fund – Revenue and Expenditure Analysis

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2020, along with the increase or decrease from fiscal year 2019 and breakdowns by percentage. The table does not include transfers in and other financing sources.

General Fund			
FY-2020 Actual	Percent Of Total	Increase (Decrease) from FY-2019	Percent Increase or (Decrease)

Revenues:

LCFF Sources	\$374,664,525	75.12%	\$8,524,174	2.33%
Federal Revenue	38,231,887	7.67%	-3,425,662	-8.22%
Other State Revenue	75,436,228	15.13%	-5,827,057	-7.17%
Other Local Revenue	<u>10,399,599</u>	<u>2.09%</u>	<u>-139,088</u>	-1.32%
Total Revenues	<u>\$498,732,239</u>	<u>100.00%</u>	<u>(\$867,633)</u>	-0.17%

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-2020 Actual	Percent Of Total	Increase (Decrease) from FY-2019	Percent Increase or (Decrease)

Expenditures:

Certificated Salaries	\$ 195,934,330	38.75%	\$ 4,073,942	2.12%
Classified Salaries	82,730,882	16.36%	8,443,270	11.37%
Employee Benefits	155,776,826	30.81%	6,852,235	4.60%
Books and Supplies	19,064,103	3.77%	(23,359,283)	-55.06%
Services, Other Operating Expenses	49,799,592	9.85%	(4,395,148)	-8.11%
Capital Outlay	1,208,696	0.24%	(91,139)	-7.01%
Other Outgo/Dir. Supp./Indirect Costs	<u>1,161,127</u>	<u>0.23%</u>	<u>263,773</u>	<u>29.39%</u>
Total Expenditures	<u>\$ 505,675,556</u>	<u>100.00%</u>	<u>\$ (8,212,350)</u>	-1.60%

The District's financial condition has been adversely affected a result of the COVID-19 pandemic and its' effects of the California economy. 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 2020 General Fund operating budget was adopted by the Governing Board in June of 2019. As adopted, budgeted revenues totaled \$466.6 million and budgeted expenditures totaled \$501.4 million. This resulted in a structural deficit of \$34.8 million. District reserves of \$101.5 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.

Capital assets and outstanding debt at June 30, 2020 are analyzed on the next pages.

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2020	2019
Land	\$ 36,080,997	\$ 36,080,997
Improvement of Sites	9,438,395	7,995,784
Buildings	531,583,028	518,084,981
Equipment	6,889,164	7,157,064
Construction in Progress	<u>111,389,291</u>	<u>74,939,370</u>
Totals	<u>\$ 695,380,875</u>	<u>\$ 644,258,196</u>

The table above reflects capital assets, net of depreciation, at June 30, 2020 and 2019. The District uses an asset capitalization threshold of \$50,000, except where federal funds are used to purchase the asset and then the capitalization threshold is \$5,000. Depreciation on each capitalized asset has been calculated using the straight-line method over applicable useful lives. Depreciation expense on completed assets totaled \$16.4 million for the 2019-20 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 \$51.2 million during the year. This includes the completion of a number of projects previously in the Construction in Progress account. Capital asset projects completed during the year include the installation of portable classroom at Kennedy Elementary, the modernization of Cleveland Elementary, the completion of Head Start construction at Grunsky, Harrison and King Elementary schools, and the completion of site irrigation, fencing and video surveillance projects at a number of District school sites. At the end of the 2019-20 year, total funds expended on projects in the construction phase totaled \$111.5 million.

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

Outstanding Debt at Year-End

	Government-Wide Activities	
	2020	2019
General Obligation Bonds, including Premiums	\$ 460,241,532	\$ 448,341,296
Accreted Interest	37,835,964	30,865,773
Certificates of Participation, including Premiums	32,472,920	33,814,417
Net Pension Liability	501,211,000	457,065,000
Total OPEB Liability	133,467,099	130,876,277
Compensated Absences	2,445,386	2,269,295
Totals	<u>\$ 1,167,673,901</u>	<u>\$ 1,103,232,058</u>

At June 30, 2020, long-term debt totaled \$1.1 billion. This represents an increase of \$64.4 million over the prior year. The following components of long-term debt increased during the fiscal year:

- General Obligation Bonds, including premiums and after normal payments, by \$11.9 million. During the year, the District issued Election of 2018 General Obligation Bonds, Series A, totaling \$30 million.

- Accreted Interest on general obligation bonds by \$6.0 million to a total of \$37.8 million;
- Net pension liability by \$44.1 million to \$501.2 million; and
- Total OPEB Liability by \$2.5 million, to \$133.4 million.

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

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

Changes to long-term debt during the 2019-20 year included:

- Certificates of Participation, including premiums and after normal payments decreased - \$1.3 million;
- Compensated absences increased by \$176 thousand to \$2.4 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 2020-21 Stockton Unified School District budget has been developed with all components of the proposal presented by Governor Gavin Newsom in January of 2020 and any applicable May Revise and Adopted Budget adjustments.

In January of 2020, Governor Newsom's proposed State budget reflected the strong national and state economies which were in place. The budget called for a 2.29% statutory Cost of Living Adjustment (COLA), which equated to a proposed \$1.2 billion increase to the Local Control Funding Formula (LCFF). What no one could foresee at the time was the effect that something originating a month earlier would have on the entire world.

In December 2019, a novel strain of coronavirus surfaced (COVID-19) and spread around the world, with resulting business and social disruption. In response to the pandemic, Governor Newsom issued an Executive Order on March 13, 2020, guaranteeing state funding to support the continued payment of salaries and benefits to all employees through June 30, 2020.

On March 17, 2020, the Governor signed Senate Bill 117 (SB 117) as urgency legislation, effective immediately. For purposes of school district funding for fiscal year 2019-20, SB 117 limited the average daily attendance reported to the California Department of Education to include the full school months from July 1, 2019, to February 29, 2020. SB 117 further stated the intent of the State Legislature that a school district's employees and contractors be paid during the period of a school closure due to COVID-19. SB 117 also waived instructional time penalties that would otherwise accrue, as long as the school district superintendent, county superintendent or charter school administrator certify that the closure due to COVID-19 caused the school district to fall below applicable instructional time requirements.

On March 19, 2020, the Governor issued a second Executive Order, a state-wide stay at home order to protect the health and well-being of all Californians and to establish consistency across the State in order to slow the spread of COVID-19. The order went into effect immediately and the District announced that all school sites and offices would be closed with minimal site staff. Later, the District transitioned to a distance learning model in order to continue the educational process for students until the end of the school year.

While SB 117 provided some immediate relief to school districts, the short-term and long-term impacts of the COVID-19 outbreak are unknown, as the situation continues to evolve. As a result, the operations and financial results of the District could be adversely affected in the future, including a reduction in the level

of funding and impact to the timing of cash flows. The effect of COVID-19 on the State budget can be seen in the chart below.

January Budget vs. May Revision vs. Enacted Budget - Effect of COVID-19			
Item	January Budget	May Revision	Enacted Budget
2021 LCFF Funding Change	\$1.2 Billion	\$(6.5) Billion	\$0
2020-21 Statutory COLA	2.29%	2.31% Not Funded	2.31% Not Funded
One-Time Discretionary Funds	\$0	\$0	\$0

These adjustments to state and local financial conditions may continue for some time into the future. Significant estimates may be materially impacted by national, state and local events designed to contain the coronavirus. Budget and cash deferrals will be employed at the state level to manage funds. Debt ratings for outstanding issuances may further be impacted. For the 2020-21 school year, the District is offering instruction in formats consistent with local health guidelines. Throughout the pandemic, the District has put into practice a number of safety measures and protocols to protect students and employees and will continue to revise them as warranted. The District continues to monitor guidelines and regulations from state and local agencies regarding COVID-19.

Even with a pandemic, the State budget and educational funding continue. At the state level, the education funding plan centers on the Local Control Funding Formula. Base grants, allocated on grade spans for all students, and supplemental and concentration grants targeted to specific student groups, provide the main source of state revenue. Funding under the LCFF is designed to allow more flexibility for school leaders to determine, with input from parents and other local stakeholders, how the state funding will be used to improve student achievement and better assure that a student will graduate from high school and be college and career ready.

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

Included as part of the LCFF is a requirement for school districts to develop, adopt, and then update on an annual basis a three-year Local Control and Accountability Plan (LCAP) using a template adopted by the California Board of Education. The LCAP is required to identify annual goals, specific actions, and measure student progress across eight performance areas, including student academic achievement, school climate, student access to a broad curriculum, and parent engagement. Parent and public input is required in developing, revising, and updating the LCAP. The academic priorities of the LCAP must be aligned to the district’s spending plan found in the annual budget. The District met with parents and the public, school personnel and bargaining units, and local civic leaders to develop the LCAP. After many meetings and several public hearings, the Governing Board adopted the District’s LCAP in June of 2020.

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

The annual state appropriation provided to increase LCFF funding is the sole determinant of changes in school district LCFF revenues. As mentioned previously, the statutory COLA of 2.31% has not been funded and no additional revenue will be available for school districts for LCFF purposes.

The tables below show LCFF funding by grade span.

LCFF - Base Grant Entitlements – Target Funding

As designed, school districts receive a base grant allocation calculated by grade span: K-3, 4-6, 7-8, and 9-12. The statutory COLA of 2.31% was not funded in the enacted budget and is not reflected in the table below for the base grant calculation by grade span.

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
2019-20 Base Grant per ADA	\$ 7,702	\$ 7,818	\$ 8,050	\$ 9,329
Statutory COLA @ 2.31% (Not Funded)	\$ -	\$ -	\$ -	\$ -
2019-20 Base Grant per ADA	\$ 7,702	\$ 7,818	\$ 8,050	\$ 9,329

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

In addition to the base grant, school districts receive adjustments for class size reduction by grade span (GSA) at grades K-3 and Career-Technical Education (CTE) at grades 9-12. 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
2019-20 Base Grant per ADA	\$ 7,702	\$ 7,818	\$ 8,050	\$ 9,329
Adjustment Percentage	10.4% GSA			2.6% CTE
Adjustment Amount	\$ 801	\$ -	\$ -	\$ 243
Adjusted Grant per ADA	\$ 8,503	\$ 7,818	\$ 8,050	\$ 9,572

LCFF – Supplemental and Concentration Grants per ADA – Target Funding

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

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
Adjusted Grant per ADA	\$ 8,503	\$ 7,818	\$ 8,050	\$ 9,572
20% Supplemental Grant	\$ 1,701	\$ 1,564	\$ 1,610	\$ 1,914
50% Concentration Grant (for eligible students exceeding 55% of enrollment)	\$ 4,252	\$ 3,909	\$ 4,025	\$ 4,786
Total Adjusted Target Funding Amount	\$ 14,456	\$ 13,291	\$ 13,685	\$ 16,272

Other Education Items Included in the State Budget

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

- No COLA was applied to Special Education resources, but over \$120 million in additional resources provided for specific programs.
- No COLA was made available for Categorical Programs, but not cuts were made to any program.
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and provides funds for K-12 education:

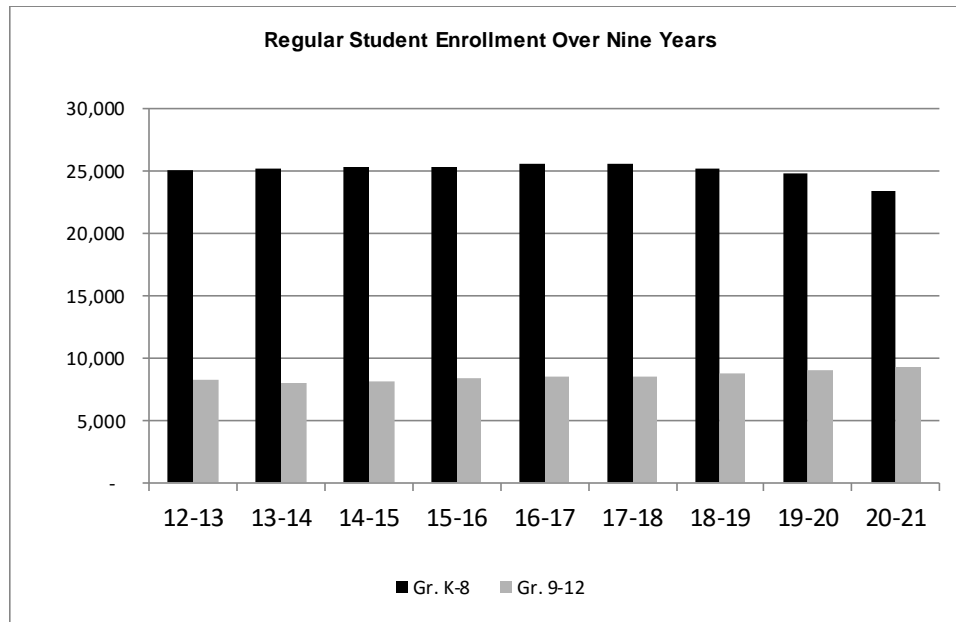
- \$1.65 billion - Elementary and Secondary School Emergency Relief (ESSER) Fund;
 - \$355 million – Governor’s Emergency Education Relief (GEER) Funds; and
 - \$4.4 billion – Coronavirus Relief Fund (CRF).
- Maintains 2019-20 provider reimbursement rates for State-subsidized Child Care and Preschool.
 - Measures provided to retain essential staff and relieve pressure on local district budgets.

The critical assumptions used in preparing the District’s 2020-21 General Fund budget in more detail below.

Student Enrollment and Enrollment Projections

One of the economic factors affecting the school District’s future outlook and growth potential is enrollment. Enrollment represents the number of students registered to attend schools within the District’s boundaries. Attendance represents those students actually coming to school each day, with revenue coming to the District based on the average daily attendance, or ADA. Additional revenue can be generated from average daily attendance when a greater number of students attend District schools. However, if enrollment is lower, the District receives less of this general purpose revenue. At the end of the second attendance month of the 2020-21 school year, enrollment in District schools, including charter schools, totals 36,422. This is a decrease of 1,211 students from the prior year and reflects the impact of COVID-19 on District enrollment, especially at the Transitional Kindergarten and Kindergarten grades.

The graph below shows regular student enrollment over the last 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 88.0% of the General Fund expenditure budget, not including other financing sources and uses, toward salary and health benefit costs. The District controls salary costs in a number of ways, including monitoring and prioritizing the recruitment of authorized positions in the budget, issuing hiring freezes when necessary, and restricting the use of additional and overtime pay. The District will continue to use prudence in discussions with employee bargaining groups regarding the adjustment of employee salaries.

In addition, the District has to assume increases in expenses due to step and column changes. Stockton Unified is obligated to provide additional employee compensation for each bargaining unit contract which has additional experience (years worked) and/or additional education (post-secondary degree program) credits. The District is assuming a step and column cost increase for certificated staff of 1.46%. The assumed rate increase for classified staff for the 2020-21 year is 2.75%.

Health Rates

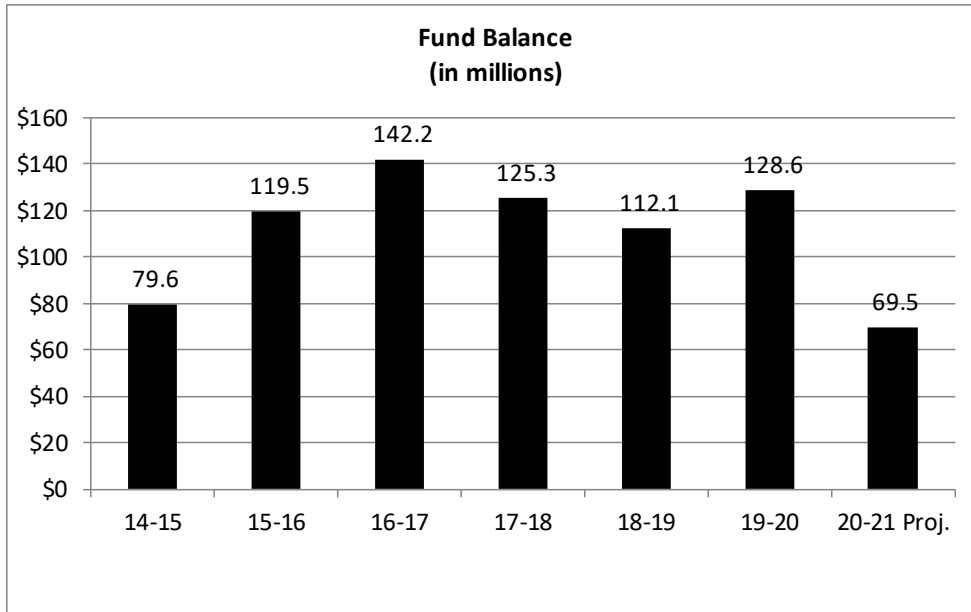
The cost of health care is expected to increase over the next few years. The District continues to work with the employee bargaining groups to explore ways of maintaining acceptable levels of health care at affordable costs. One way is through the use of “soft caps” to control the health care costs borne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

Fund Balance

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

Additionally, a “Reserve for Economic Uncertainties” for unforeseen emergencies is required of districts by the State Department of Education. The reserve for this Stockton Unified is based on 2% of the total General Fund expenditures (approximately \$10.1 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 2020-21 year.

The graph below shows the history of the District’s General Fund balance, including the projected net ending fund balance for the 2020-21 year, which includes restricted balance estimates.



Conclusion

As the Stockton Unified School District approaches the 2020-21 school year, staff acknowledges that they have a formidable task facing them. Proper planning and foresight will be required for the District to balance financial resources with educational goals and objectives. School site staff, central office employees, and District administration are prepared to meet the goal of providing an educational program that will empower our students to gain the knowledge necessary to progress through life as informed and productive citizens.

Contacting the District’s Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors, and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have any questions regarding this report or need additional financial information, contact Ms. Susanne Montoya, 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, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 303,356,861
Receivables	86,607,433
Prepaid expenses	58,392
Stores inventory	2,173,824
Non-depreciable capital assets (Note 4)	147,470,288
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>547,910,587</u>
Total assets	<u>1,087,577,385</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 9 and 10)	172,941,864
Deferred outflows of resources - OPEB (Note 7)	9,087,771
Deferred loss from refunding of debt	<u>23,458,693</u>
Total deferred outflows	<u>205,488,328</u>
LIABILITIES	
Accounts payable	45,478,990
Claims liability, current (Note 5)	4,910,000
Unearned revenue	13,352,151
Long-term liabilities:	
Claims liability, less current portion (Note 5)	19,638,000
Due within one year (Note 6)	21,218,696
Due after one year (Note 6)	<u>1,146,455,205</u>
Total liabilities	<u>1,251,053,042</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 9 and 10)	34,850,000
Deferred inflows of resources - OPEB (Note 7)	<u>11,594,517</u>
Total deferred inflows	<u>46,444,517</u>
NET POSITION	
Net investment in capital assets	253,091,009
Restricted:	
Legally restricted programs	42,812,890
Capital projects	15,529,716
Debt service	37,028,234
Unrestricted	<u>(352,893,695)</u>
Total net position	<u>\$ (4,431,846)</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

		Program Revenues			Net (Expense) Revenues and Change in Net Position
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	
Governmental activities:					
Instruction	\$ 352,569,624	\$ 203,873	\$ 83,477,006	\$ -	\$ (268,888,745)
Instruction-related services:					
Supervision of instruction	46,097,108	29,637	18,024,795	-	(28,042,676)
Instructional library, media and technology	1,477,685	-	349,703	-	(1,127,982)
School site administration	40,070,851	3,663	3,732,478	-	(36,334,710)
Pupil services:					
Home-to-school transportation	16,303,196	-	-	-	(16,303,196)
Food services	20,093,402	38,324	17,148,193	-	(2,906,885)
All other pupil services	56,831,985	33,076	12,515,062	-	(44,283,847)
General administration:					
Data processing	5,520,916	-	-	-	(5,520,916)
All other general administration	13,946,579	12,087	5,034,129	-	(8,900,363)
Plant services	67,374,553	14,029	1,795,933	-	(65,564,591)
Ancillary services	1,376,795	-	50,103	-	(1,326,692)
Community services	13,815	-	-	-	(13,815)
Enterprise activities	28,932	-	-	-	(28,932)
Interest on long-term liabilities	26,218,635	-	-	-	(26,218,635)
Other outgo	1,661,727	2,850,305	14,160,106	-	15,348,684
	<u>\$ 649,585,803</u>	<u>\$ 3,184,994</u>	<u>\$ 156,287,508</u>	<u>\$ -</u>	<u>(490,113,301)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					59,782,050
Taxes levied for debt service					40,976,230
Taxes levied for other specific purposes					2,002,719
Federal and state aid not restricted to specific purposes					355,826,680
Interest and investment earnings					2,352,092
Interagency revenues					2,737,704
Miscellaneous					2,812,283
					<u>466,489,758</u>
					Change in net position <u>(23,623,543)</u>
					Net Position, July 1, 2019 <u>19,191,697</u>
					<u>\$ (4,431,846)</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

	General <u>Fund</u>	Building <u>Fund</u>	All Non-Major <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS				
Cash and investments:				
Cash in County Treasury	\$ 99,035,809	\$ 61,851,049	\$ 62,497,712	\$ 223,384,570
Cash in County Treasury restricted for capital projects	-	-	15,286,646	15,286,646
Cash on hand and in banks	-	-	26,138	26,138
Cash in revolving fund	63,912	-	1,102	65,014
Cash with Fiscal Agent	1,704,267	-	7,105,005	8,809,272
Receivables	73,620,150	261,597	12,489,460	86,371,207
Prepaid expenditures	58,392	-	-	58,392
Due from other funds	10,092,791	-	7,010,139	17,102,930
Stores inventory	1,258,352	-	915,472	2,173,824
	<u>1,258,352</u>	<u>-</u>	<u>915,472</u>	<u>2,173,824</u>
Total assets	<u>\$ 185,833,673</u>	<u>\$ 62,112,646</u>	<u>\$ 105,331,674</u>	<u>\$ 353,277,993</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 30,241,378	\$ 1,788,709	\$ 5,610,567	\$ 37,640,654
Unearned revenue	12,143,686	-	1,208,465	13,352,151
Due to other funds	5,940,139	-	11,162,791	17,102,930
	<u>5,940,139</u>	<u>-</u>	<u>11,162,791</u>	<u>17,102,930</u>
Total liabilities	<u>48,325,203</u>	<u>1,788,709</u>	<u>17,981,823</u>	<u>68,095,735</u>
Fund balances:				
Nonspendable	1,380,656	-	916,574	2,297,230
Restricted	8,020,989	60,323,937	86,433,277	154,778,203
Assigned	127,429,321	-	-	127,429,321
Unassigned	677,504	-	-	677,504
	<u>677,504</u>	<u>-</u>	<u>-</u>	<u>677,504</u>
Total fund balances	<u>137,508,470</u>	<u>60,323,937</u>	<u>87,349,851</u>	<u>285,182,258</u>
Total liabilities and fund balances	<u>\$ 185,833,673</u>	<u>\$ 62,112,646</u>	<u>\$ 105,331,674</u>	<u>\$ 353,277,993</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET –
TO THE STATEMENT OF NET POSITION
June 30, 2020

Total fund balances - Governmental Funds		\$ 285,182,258
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 \$976,942,913 and the accumulated depreciation is \$281,562,038 (Note 4).		
		695,380,875
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2020 consisted of (Note 6):		
General Obligation Bonds and premium	\$ (460,241,532)	
Accreted interest	(37,835,964)	
Certificates of Participation and premium	(32,472,920)	
Net pension liability (Notes 9 and 10)	(501,211,000)	
Total OPEB liability (Note 7)	(133,467,099)	
Compensated absences	<u>(2,445,386)</u>	
		(1,167,673,901)
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 occurred.		
		(6,403,527)
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.		
		23,458,693
In government funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating the total OPEB liability and net pension liability are reported (Notes 7, 9 and 10).		
Deferred outflows of resources relating to pensions	\$ 172,941,864	
Deferred outflows of resources relating to OPEB	9,087,771	
Deferred inflows of resources relating to pensions	(34,850,000)	
Deferred inflows of resources relating to OPEB	<u>(11,594,517)</u>	
		135,585,118
Internal service funds are used to conduct certain activities for which cost are charged to other funds. Assets and liabilities are reported within the governmental activities in the Statement of Net Position.		
		<u>30,038,638</u>
Total net position - governmental activities		<u>\$ (4,431,846)</u>

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, 2020

	General Fund	Building Fund	All Non-Major Funds	Total Governmental Funds
Revenues:				
Local Control Funding				
Formula (LCFF):				
State apportionment	\$ 327,260,562	\$ -	\$ 26,382,161	\$ 353,642,723
Local sources	47,403,963	-	-	47,403,963
Total LCFF	<u>374,664,525</u>	<u>-</u>	<u>26,382,161</u>	<u>401,046,686</u>
Federal sources	38,231,887	-	26,498,395	64,730,282
Other state sources	75,436,228	-	20,415,025	95,851,253
Other local sources	10,399,599	8,419,127	37,744,578	56,563,304
Total revenues	<u>498,732,239</u>	<u>8,419,127</u>	<u>111,040,159</u>	<u>618,191,525</u>
Expenditures:				
Current:				
Certificated salaries	195,934,330	-	18,106,309	214,040,639
Classified salaries	82,730,882	-	12,946,189	95,677,071
Employee benefits	155,776,826	-	17,835,625	173,612,451
Books and supplies	19,064,103	957,459	7,570,404	27,591,966
Contract services and				
operating expenditures	49,799,592	1,249,415	6,229,638	57,278,645
Other outgo	1,161,127	-	500,600	1,661,727
Capital outlay	1,208,696	48,477,281	15,268,795	64,954,772
Debt service:				
Principal retirement	-	-	18,675,000	18,675,000
Interest	-	-	19,175,254	19,175,254
Total expenditures	<u>505,675,556</u>	<u>50,684,155</u>	<u>116,307,814</u>	<u>672,667,525</u>
Deficiency of revenues				
under expenditures	<u>(6,943,317)</u>	<u>(42,265,028)</u>	<u>(5,267,656)</u>	<u>(54,476,001)</u>
Other financing sources (uses):				
Transfers in	34,420,970	-	3,113,838	37,534,808
Transfers out	(2,043,838)	-	(35,490,970)	(37,534,808)
Proceeds from the issuance of				
long-term liabilities	-	30,000,000	-	30,000,000
Debt issuance premiums	-	485,010	1,388,602	1,873,612
Total other financing				
sources (uses)	<u>32,377,132</u>	<u>30,485,010</u>	<u>(30,988,531)</u>	<u>31,873,612</u>
Change in fund balances	25,433,815	(11,780,018)	(36,256,186)	(22,602,389)
Fund balances, July 1, 2019	<u>112,074,655</u>	<u>72,103,955</u>	<u>123,606,037</u>	<u>307,784,647</u>
Fund balances, June 30, 2020	<u>\$ 137,508,470</u>	<u>\$ 60,323,937</u>	<u>\$ 87,349,851</u>	<u>\$ 285,182,258</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVUES, EXPENDITURES AND
CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Net change in fund balances - Total Governmental Funds	\$ (22,602,389)
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).	67,639,025
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(16,441,439)
In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported.	(74,907)
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).	18,675,000
Proceeds from debt are recognized as other financing sources in the governmental funds, but increased the long-term liabilities in the statement of net position (Note 6).	(30,000,000)
In governmental funds, debt issued at a premium is recognized as other financing source. In the government-wide statements, debt issued at a premium is amortized as interest over the life of the debt (Note 6).	584,764
Losses on refundings of debt are categorized as deferred outflows and are amortized over the shortened life of the refunded of refunding of the debt.	(1,421,785)
Accreted interest is an expense that is not recorded in the governmental funds (Note 6).	(6,970,191)
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.	1,045,459
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a cost recovery basis The change in net position for the Self-Insurance Fund was:	8,609,567

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVUES, EXPENDITURES AND
CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

In governmental funds, OPEB costs are recognized when employers contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis (Notes 7).	\$ (6,527,041)
In governmental 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 actual employer contributions was (Notes 6, 9 and 10):	(35,963,515)
In governmental funds, expenditures are measured by the amounts of financial resources used. In the statement of activities, expenditures related to compensated absences are measured by the amount of financial resources used (Note 6).	<u>(176,091)</u>
Change in net position of governmental activities	<u><u>\$ (23,623,543)</u></u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2020

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 55,017,422
Cash with Fiscal Agent	767,270
Cash in Revolving Fund	529
Receivables	<u>236,226</u>
Total current assets	<u>56,021,447</u>

LIABILITIES

Accounts payable	1,434,809
Claims liability, current	<u>4,910,000</u>
Total current liabilities	6,344,809
Claims liability, less current portion	<u>19,638,000</u>
Total liabilities	<u>25,982,809</u>

NET POSITION

Unrestricted	<u><u>\$ 30,038,638</u></u>
--------------	-----------------------------

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, 2020

Operating revenue:	
Other local revenues	<u>\$ 21,926,949</u>
Operating expenses:	
Classified Salaries	116,958
Employee benefits	65,424
Books and supplies	326
Contract services	<u>13,782,776</u>
Total operating expense	<u>13,965,484</u>
Operating income	7,961,465
Non-operating income:	
Interest income	<u>648,102</u>
Change in net position	8,609,567
Total net position, July 1, 2019	<u>21,429,071</u>
Total net position, June 30, 2020	<u><u>\$ 30,038,638</u></u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2020

Cash flows from operating activities:

Cash received from self-insurance premiums	\$ 21,882,129
Cash received from other local revenue	44,820
Cash paid for employee benefits	(5,774,662)
Cash paid for other expenses	<u>(8,497,785)</u>

Net cash provided by operating activities 7,654,502

Cash flows provided by investing activities:

Interest income received 648,102

Increase in cash and investments 8,302,604

Cash and investments, July 1, 2019 47,482,617

Cash and investments, June 30, 2020 \$ 55,785,221

Reconciliation of operating income to net cash provided by operating activities:

Operating income \$ 7,961,465

Adjustments to reconcile operating loss to net cash provided by operating activities:

Decrease in:

Receivables	65,560
Accounts payable and claims liability	<u>(372,523)</u>

Total adjustments (306,963)

Net cash provided by operating activities \$ 7,654,502

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST AND AGENCY FUNDS
June 30, 2020

	<u>Trust Fund</u>	<u>Agency Fund</u>
	<u>Scholarship Trust</u>	<u>Student Body Funds</u>
ASSETS		
Cash on hand and in bank (Note 2)	\$ 791,303	\$ 1,026,241
	<u> </u>	<u> </u>
LIABILITIES		
Due to student groups	-	\$ 1,026,241
	<u> </u>	<u> </u>
NET POSITION		
Restricted for scholarships	\$ 791,303	
	<u> </u>	

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2020

	Scholarship Trust
Additions:	
Contributions	\$ <u>47,304</u>
Deductions:	
Contract service and operating expenditures	<u>66,997</u>
Change in net position	(19,693)
Net position, July 1, 2019	<u>810,996</u>
Net position, June 30, 2020	<u><u>\$ 791,303</u></u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A - Manifestations of Oversight

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

B - Accounting for Fiscal Matters

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

C - Scope of Public Service and Financial Presentation

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

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

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

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

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

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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:

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:

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.

B - Other Funds

Special Revenue Funds - 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 - 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 Special Reserve for Capital Outlay Projects 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.

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

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

The Agency Fund is used to account for the various balances for which the District acts as an agent used to account for revenues and expenditures of the various student body organizations. This classification includes the assets and liabilities of the Student Body Funds.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Receivables: Receivables are made up principally of amounts due from the State of California. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2020.

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.

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 represents a consumption of net position that applies to future period, and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred outflow related to a deferred loss on refunding of the District's debt. 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 related to the recognition of the total OPEB liability and net pension liability, 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 represents an acquisition of net position that applies to future periods and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the net pension liability and total OPEB liability, in the Statement of Net Position.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	\$ 127,650,179	\$ 45,291,685	\$ 172,941,864
Deferred inflows of resources	\$ 33,400,000	\$ 1,450,000	\$ 34,850,000
Net pension liability	\$ 344,902,000	\$ 156,309,000	\$ 501,211,000
Pension expense	\$ 80,847,028	\$ 39,287,345	\$ 120,134,373

Compensated Absences: Compensated absences totaling \$2,445,386 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.

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 appropriate 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 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".

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2020, the District had no committed fund balances.

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, 2020 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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2020, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

Custodial Relationships: The Agency Fund represents the assets and liabilities of various student organizations within the District. As the funds are custodial in nature, no measurement of operating results is involved.

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

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

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

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2020 are reported at fair value and consisted of the following:

	Governmental Activities			Fiduciary Activities
	Governmental Funds	Proprietary Fund	Total	
Pooled Funds:				
Cash in County Treasury	\$ 223,384,570	\$ 55,017,422	\$ 278,401,992	\$ -
Cash in County Treasury - restricted for capital projects	15,286,646	-	15,286,646	-
Total pooled funds	<u>238,671,216</u>	<u>55,017,422</u>	<u>293,688,638</u>	<u>-</u>
Deposits:				
Cash on hand and in banks	26,138	-	26,138	1,817,544
Cash in revolving fund	65,014	529	65,543	-
Total deposits	<u>91,152</u>	<u>529</u>	<u>91,681</u>	<u>1,817,544</u>
Investments:				
Cash with Fiscal Agent	8,809,272	767,270	9,576,542	-
Total cash and cash investments	<u>\$ 247,571,640</u>	<u>\$ 55,785,221</u>	<u>\$ 303,356,861</u>	<u>\$ 1,817,544</u>

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, 2020, the carrying amount of the District's accounts was \$1,909,225 and the bank balance was \$1,963,706. Total uninsured bank balances were \$1,713,706.

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)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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, 2020, 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, 2020, 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, 2020 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund:		
General	\$ 10,092,791	\$ 5,940,139
Non-Major Funds:		
Charter School	315,154	3,516,404
Child Development	52,092	2,016,192
Cafeteria	3,069,663	833,005
Deferred Maintenance	2,003,230	-
Capital Facilities	500,000	-
Special Reserve for Capital Outlay Projects	-	3,727,190
Bond Interest and Redemption	-	1,070,000
Debt Service Fund	1,070,000	-
Totals	<u>\$ 17,102,930</u>	<u>\$ 17,102,930</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - INTERFUND TRANSACTIONS (Continued)

The interfund receivable and payable balance between the Building and Bond Interest and Redemption Funds related to correcting the placement of proceeds from the issuance of General Obligation Bonds and were repaid subsequent to June 30, 2019.

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

Transfers for the 2019-2020 fiscal year were as follows:

Transfer from the Charter School Fund to the General Fund for loan repayment and indirect costs support.	\$ 355,971
Transfer from the Special Reserve for Capital Outlay Projects Fund to General Fund for support of the Lakeside School Project.	31,713,717
Transfer from the General Fund to the Cafeteria Fund for program support costs.	1,543,838
Transfer from the Adult Education Fund to the General Fund for the return of unrestricted funds.	492,482
Transfer from the General Fund to the Capital Facilities Fund to contribute to the Certificates of Participation debt service payment.	500,000
Transfer from the Adult Education Fund to the General Fund for indirect costs support.	229,128
Transfer from the Child Development Fund to the General Fund for indirect costs support.	796,512
Transfer from the Cafeteria Fund to the General Fund for indirect costs support.	833,160
Transfer from the Bond Interest and Redemption Fund to the Debt Service Fund related to sinking fund deposit.	<u>1,070,000</u>
	<u>\$ 37,534,808</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2020 is shown below:

	Balance July 1, <u>2019</u>	<u>Additions</u>	Transfers and <u>Deductions</u>	Balance June 30, <u>2020</u>
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 36,080,997	\$ -	\$ -	\$ 36,080,997
Work-in-process	74,939,370	67,083,614	(30,633,693)	111,389,291
Depreciable:				
Buildings	758,797,927	-	28,439,686	787,237,613
Site improvements	14,127,386	-	2,008,364	16,135,750
Equipment	<u>25,497,667</u>	<u>555,411</u>	<u>46,184</u>	<u>26,099,262</u>
Totals, at cost	<u>909,443,347</u>	<u>67,639,025</u>	<u>(139,459)</u>	<u>976,942,913</u>
Less accumulated depreciation:				
Buildings	(240,712,946)	(14,941,639)	-	(255,654,585)
Site improvements	(6,131,602)	(565,753)	-	(6,697,355)
Equipment	<u>(18,340,603)</u>	<u>(934,047)</u>	<u>64,552</u>	<u>(19,210,098)</u>
Total accumulated depreciation	<u>(265,185,151)</u>	<u>(16,441,439)</u>	<u>64,552</u>	<u>(281,562,038)</u>
Capital assets, net	<u>\$ 644,258,196</u>	<u>\$ 51,197,586</u>	<u>\$ (74,907)</u>	<u>\$ 695,380,875</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 15,771,725
Home-to-school transportation	295,106
Food services	176,502
All other general administration	94,658
Centralized data processing	51,891
Plant services	<u>51,557</u>
Total depreciation expense	<u>\$ 16,441,439</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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. The last actuarial study was completed as of June 30, 2018. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

	June 30, <u>2019</u>	June 30, <u>2020</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 25,334,468	\$ 24,896,000
Total incurred claims and claim adjustment expenses	5,212,690	5,023,726
Total payments	<u>(5,651,158)</u>	<u>(5,371,726)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 24,896,000</u>	<u>\$ 24,548,000</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 6 - LONG-TERM LIABILITIES

General Obligation Bonds: On December 17, 2009, the District issued Election of 2008 General Obligation Bonds, Series B, Qualified School Construction Bonds (2008 Series B), totaling \$16,040,000. The bonds bear interest at a rate of 2.19% and are scheduled to mature through fiscal year 2026.

On July 22, 2010, the District issued Election of 2008 General Obligation Bonds, Series C, Qualified School Construction Bonds (2008 Series C), totaling \$14,930,000. The bonds bear coupon rates from 5.17% to 7.08% and are scheduled to mature through fiscal year 2028.

On June 2, 2011, the District issued Election of 2008 General Obligation Bonds, Series D (2008 Series D), totaling \$56,146,497. The 2008 Series D Bonds were issued as Capital Appreciation Bonds, with interest compounding on February 1 and August 1, to maturity. The 2008 Series D Bonds were partially refunded by the issuance of the 2014A Refunding and 2014B Refunding. All of the refunded maturities have been fully repaid. The remaining 2008 Series D Bonds bear interest at rates ranging from 5.89% to 7.72% and are scheduled to mature through fiscal year 2051.

Also on June 2, 2011, the District concurrently issued 2011 General Obligation Refunding Bonds (2011 Refunding), totaling \$14,175,000. The 2011 Refunding was issued to refund certain maturities of the District's Series 2001 and Series 2003 General Obligation Bonds and to pay cost of issuance of the Refunding Bond. All of the refunded maturities have been fully repaid. The 2011 Refunding bears interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through fiscal year 2022.

On November 6, 2012, the District issued 2012 General Obligation Refunding Bonds (2012 Refunding), totaling \$43,570,000. The 2012 Refunding was issued to refund the remaining maturities of the District's Series 2001, Series 2003 and Series 2004 General Obligation Bonds. The 2012 Refunding bears interest at rates from 3.0% to 5.0% and are scheduled to mature through fiscal year 2029.

On March 6, 2014, the District issued Election of 2012 General Obligation Bonds, Series A (2012 Series A), totaling \$65,000,000. The 2012 Series A bonds bear interest at rates ranging from 3.0% to 5.0% and are scheduled to mature through fiscal year 2043.

On September 11, 2014, the District issued Series 2014A General Obligation Refunding Bonds (2014 A Refunding), totaling \$35,620,000. The 2014A Refunding was issued to refund certain maturities of the District's Series 2008 D General Obligation Capital Appreciation Bonds. The 2014A Refunding bonds bear interest at rates ranging from 4.0% to 5.0% and are scheduled to mature through fiscal year 2040.

Also on September 11, 2014, the District issued Series 2014B General Obligation Refunding Bonds (2014B Refunding), totaling \$1,485,000. The 2014B Refunding was issued to refund additional maturities of the District's Series 2008 D General Obligation Capital Appreciation Bonds. The 2014A Refunding bonds bear interest at rates ranging from 1.35% to 2.33% and are scheduled to mature through fiscal year 2020.

On December 17, 2015, the District issued Election of 2012 General Obligation Bonds, Series B (2012 Series B), totaling \$30,000,000. The 2012 Series B bonds bear interest at rates ranging from 3.0% to 5.0% and are scheduled to mature through fiscal year 2041.

On February 2, 2016, the District issued 2016 General Obligation Refunding Bonds (2016 Refunding), totaling \$128,285,000. The 2016 Refunding was issued to refund all outstanding maturities of the District's Series 2006 and Series 2007 GO bonds, and the 2008 Series A GO Bonds. All of the refunded maturities have been fully repaid. The 2016 Refunding bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through fiscal year 2033.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 6 - LONG-TERM LIABILITIES (Continued)

On October 23, 2018, the District issued Election of 2012 General Obligation Bonds, Series C (2012 Series C), totaling \$61,000,000. The 2012 Series C bonds bear interest at rates ranging from 3.75% to 5.00% and are scheduled to mature through fiscal year 2044.

Also on October 23, 2018, the District issued Election of 2014 General Obligation Ed-Tech Bonds, Series B (2014 Series B), totaling \$9,760,000. The 2014 Series B bonds bear interest at rates ranging from 4.0% to 5.0% and are scheduled to mature through fiscal year 2022.

On November 19, 2019, the District issued Election of 2018, Series A General Obligation Bonds totaling \$30,000,000. The Bonds were issued as GO Reauthorization Bonds and bear interest at rates ranging from 2.5% to 5.0%, maturing through August 2046.

A summary of General Obligation Bonds payable as of June 30, 2020 follows:

<u>Series</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Balance July 1, 2019</u>	<u>Current Year Issuance</u>	<u>Matured Current Year</u>	<u>Balance June 30, 2020</u>
2008 Series B	2.19%	2026	\$ 16,040,000	\$ -	\$ -	\$ 16,040,000
2008 Series C	5.17-7.08%	2028	11,285,000	-	1,190,000	10,095,000
2008 Series D	5.89-7.72%	2051	43,622,363	-	-	43,622,363
2011 Refunding Bonds	2.00-5.00%	2022	3,525,000	-	2,360,000	1,165,000
2012 Refunding Bonds	3.00-5.00%	2029	32,105,000	-	1,140,000	30,965,000
2012 Series A	3.00-5.00%	2043	58,785,000	-	-	58,785,000
2014A Refunding Bonds	4.00-5.00%	2040	35,620,000	-	-	35,620,000
2014B Refunding Bonds	1.35-2.33%	2020	600,000	-	600,000	-
2012 Series B	3.00-5.00%	2041	24,475,000	-	575,000	23,900,000
2016 Refunding Bonds	2.00-5.00%	2033	119,835,000	-	5,550,000	114,285,000
2012 Series C	3.75-5.00%	2044	61,000,000	-	3,000,000	58,000,000
2014 Series B	4.00-5.00%	2022	9,760,000	-	3,100,000	6,660,000
2018 Series A	2.50-5.00%	2047	-	30,000,000	-	30,000,000
Total			<u>\$ 416,652,363</u>	<u>\$ 30,000,000</u>	<u>\$ 17,515,000</u>	<u>\$ 429,137,363</u>

The annual requirements to amortize the General Obligation Bonds Payable and outstanding as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 17,300,000	\$ 16,881,447	\$ 34,181,447
2022	18,750,000	16,351,090	35,101,090
2023	16,830,000	15,455,019	32,285,019
2024	16,586,028	14,573,763	31,159,791
2025	18,121,369	13,712,482	31,833,851
2026-2030	112,390,358	73,538,331	185,928,689
2031-2035	84,501,214	75,880,590	160,381,804
2036-2040	69,971,854	80,518,355	150,490,209
2041-2045	49,887,678	70,535,509	120,423,187
2046-2050	17,163,944	55,286,081	72,450,025
2051	7,634,918	18,406,332	26,041,250
	<u>\$ 429,137,363</u>	<u>\$ 451,138,999</u>	<u>\$ 880,276,362</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 6 - LONG-TERM LIABILITIES (Continued)

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

Scheduled payments for the COPs are as follows:

Year Ending <u>June 30,</u>	<u>Payments</u>
2021	\$ 2,614,750
2022	2,619,000
2023	2,615,000
2024	2,618,000
2025	2,612,500
2026-2030	13,083,250
2031-2035	13,086,500
2036	<u>1,827,000</u>
Total payments	41,076,000
Less amount representing interest	<u>(13,081,000)</u>
Net present value of minimum payments	<u><u>\$ 27,995,000</u></u>

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2020 is shown below:

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2020</u>	Amounts Due Within <u>One Year</u>
<u>Debt:</u>					
General Obligation Bonds	\$ 416,652,363	\$ 30,000,000	\$ 17,515,000	\$ 429,137,363	\$ 17,300,000
General Obligation Bonds Premium	31,688,933	1,873,612	2,458,376	31,104,169	2,513,261
Accreted interest	30,865,773	6,970,191	-	37,835,964	-
Certificates of Participation	29,155,000	-	1,160,000	27,995,000	1,215,000
Certificates of Participation Premium	4,659,417	-	181,497	4,477,920	190,435
<u>Other long-term liabilities</u>					
Net pension liability (Notes 9 and 10)	457,065,000	44,146,000	-	501,211,000	-
Total OPEB liability (Note 7)	130,876,277	2,590,822	-	133,467,099	-
Compensated absences	2,269,295	176,091	-	2,445,386	-
	<u>\$ 1,103,232,058</u>	<u>\$ 85,756,716</u>	<u>\$ 21,314,873</u>	<u>\$ 1,167,673,901</u>	<u>\$ 21,218,696</u>

Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the Capital Facilities Fund. Payments on the total OPEB liability, net pension liability and for compensated absences are made from the fund for which the related employee worked.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

General Information Other Postemployment Benefits Plan (OPEB)

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

The Stockton Unified School District's Retiree Health Care Plan (Plan) is a single-employer defined benefit postemployment health care plan that covers eligible retired employees of the District. The Plan, which is administered by the District, allows employees who retire and meet retirement eligibility requirements under the District's retirement plan to continue medical, dental and vision coverage as a participant in the District's plan. The District's Governing Board has the authority to establish or amend the benefit terms offered by the Plan. The District's Governing Board also retains the authority to establish the requirements for paying the Plan benefits as they come due. As of June 30, 2020 the District has not accumulated assets in a qualified trust for the purpose of paying the benefits related to the District's Total OPEB Liability.

Employees Covered by Benefit Terms: The following is a table of plan participants at June 30, 2020:

	<u>Number of Participants</u>
Inactive Plan members, covered spouses, or beneficiaries currently receiving benefits	606
Active Employees	<u>3,214</u>
	<u><u>3,820</u></u>

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

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

Contributions to the Plan from the District were \$4,644,091 for the year ended June 30, 2020. Employees are not required to contribute to the OPEB plan.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Valuation Date</u>	June 30, 2020																
<u>Measurement Date</u>	June 30, 2020																
<u>Fiscal Year End</u>	June 30, 2020																
<u>Mortality Rate</u>	2020 CalSTRS Mortality for Certificated Employees. 2017 CalPERS Mortality for others.																
<u>Discount Rate as of June 30, 2017</u>	2.20%. Based on the Bond Buyer 20-Bond Index																
<u>Retirement Rate</u>	Retirement rates march rates developed in the most recent experience studies for California PERS (2017) and California STRS (2020)																
<u>Inflation Rate</u>	2.75% per year																
<u>Salary Increases</u>	2.75% per year																
<u>Spouse Coverage</u>	40% of retirees are assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality. Female spouses are assumed to be three years younger than male.																
<u>Medicare Coverage</u>	All current and future participating retirees and spouses will qualify for Medicare coverage and enroll in Parts A and B upon age 65.																
<u>Health Care Inflation</u>	Healthcare costs were assumed to increase according to the following schedule:																
	<table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>FYB</u></th> <th style="text-align: left;"><u>Medical/Rx</u></th> <th style="text-align: left;"><u>Dental/Vision</u></th> <th style="text-align: left;"><u>CPI</u></th> </tr> </thead> <tbody> <tr> <td>2018</td> <td style="text-align: center;">7.00%</td> <td style="text-align: center;">4.00%</td> <td style="text-align: center;">3.50%</td> </tr> <tr> <td>2019</td> <td style="text-align: center;">6.00</td> <td style="text-align: center;">4.00</td> <td style="text-align: center;">3.50</td> </tr> <tr> <td>2020+</td> <td style="text-align: center;">5.00</td> <td style="text-align: center;">4.00</td> <td style="text-align: center;">3.50</td> </tr> </tbody> </table>	<u>FYB</u>	<u>Medical/Rx</u>	<u>Dental/Vision</u>	<u>CPI</u>	2018	7.00%	4.00%	3.50%	2019	6.00	4.00	3.50	2020+	5.00	4.00	3.50
<u>FYB</u>	<u>Medical/Rx</u>	<u>Dental/Vision</u>	<u>CPI</u>														
2018	7.00%	4.00%	3.50%														
2019	6.00	4.00	3.50														
2020+	5.00	4.00	3.50														

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2019	\$ 130,876,277
Changes for the year:	
Service cost	6,566,572
Interest	4,776,856
Benefit payments	(4,644,091)
Difference between actual and expected experience	(12,611,580)
Changes in assumptions	<u>8,503,065</u>
Net change	<u>2,590,822</u>
Balance at June 30, 2020	<u>\$ 133,467,099</u>

The change of assumptions comprised of a change in the discount rate from 3.50% in the prior valuation, to 2.20% in the current valuation.

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

	1% Decrease <u>(1.20%)</u>	Current Discount Rate <u>(2.20%)</u>	1% Increase <u>(3.20%)</u>
Total OPEB liability	<u>\$ 153,413,352</u>	<u>\$ 133,467,099</u>	<u>\$ 117,134,423</u>

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

	1% Decrease <u>(4.00-2.50%)</u>	Healthcare Cost Trend Rates <u>(5.00-3.50%)</u>	1% Increase <u>(6.00-4.50%)</u>
Total OPEB liability	<u>\$ 113,152,574</u>	<u>\$ 133,467,099</u>	<u>\$ 159,749,837</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$11,170,902.

At June 30, 2020 the District reported the following deferred outflows of resources and deferred inflows of resources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 9,087,771	\$ -
Difference between actual and expected experience	<u>-</u>	<u>11,594,517</u>
	<u>\$ 9,087,771</u>	<u>\$ 11,594,517</u>

This amount will be recognized in OPEB expense as follows:

Year Ending <u>June 30,</u>	
2021	\$ (172,526)
2022	\$ (172,526)
2023	\$ (172,526)
2024	\$ (172,526)
2025	\$ (172,526)
Thereafter	\$ (1,644,116)

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 8 - FUND BALANCE

Fund balances, by category, at June 30, 2020 consisted of the following:

	General Fund	Building Fund	All Non-Major Funds	Total
Nonspendable:				
Revolving cash fund	\$ 63,912	\$ -	\$ 1,102	\$ 65,014
Prepaid expenditures	58,392	-	-	58,392
Stores inventory	<u>1,258,352</u>	<u>-</u>	<u>915,472</u>	<u>2,173,824</u>
Subtotal nonspendable	<u>1,380,656</u>	<u>-</u>	<u>916,574</u>	<u>2,297,230</u>
Restricted:				
Legally restricted:				
Grants	8,020,989	-	-	8,020,989
Charter schools	-	-	21,533,439	21,533,439
Cafeteria	-	-	7,580,711	7,580,711
Maintenance	-	-	2,232,249	2,232,249
Other programs	-	-	2,528,928	2,528,928
Capital projects	-	60,323,937	15,529,716	75,853,653
Debt service	<u>-</u>	<u>-</u>	<u>37,028,234</u>	<u>37,028,234</u>
Subtotal restricted	<u>8,020,989</u>	<u>60,323,937</u>	<u>86,433,277</u>	<u>154,778,203</u>
Assigned:				
Economic forecast	122,665,567	-	-	122,665,567
One time- mandated costs	589,491	-	-	589,491
One time-lottery carryover	<u>4,174,263</u>	<u>-</u>	<u>-</u>	<u>4,174,263</u>
Subtotal assigned	<u>127,429,321</u>	<u>-</u>	<u>-</u>	<u>127,429,321</u>
Unassigned:				
Designated for economic uncertainty	<u>677,504</u>	<u>-</u>	<u>-</u>	<u>677,504</u>
Total fund balances	<u>\$ 137,508,470</u>	<u>\$ 60,323,937</u>	<u>\$ 87,349,851</u>	<u>\$ 285,182,258</u>

(Continued)

NOTE 9 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN

General Information about the State Teachers' Retirement Plan

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

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

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

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

CalSTRS 2% at 60

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

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any 36 consecutive months 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 36 consecutive months of credited service.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

In June 2019, California Senate Bill 90 (SB 90) was signed into law and appropriated approximately \$2.2 billion in fiscal year 2018–19 from the state's General Fund as contributions to CalSTRS on behalf of employers. The bill requires portions of the contribution to supplant the amounts remitted by employers such that the amounts remitted will be 1.03 and 0.70 percentage points less than the statutorily required amounts due for fiscal years 2019–20 and 2020–21, respectively. The remaining portion of the contribution is allocated to reduce the employers' share of the unfunded actuarial obligation of the Defined Benefit Program.

California Assembly Bill 84, Chapter 16, Statutes of 2020, (AB 84) was signed into law in June 2020 and revised certain provisions of Teachers' Retirement Law enacted by SB 90. Specifically, AB 84 repurposed the aforementioned \$1.6 billion contribution originally intended to reduce employers' long-term liabilities, to further supplant employer contributions through fiscal year 2021–22. Pursuant to AB 84, employers will remit contributions to CalSTRS based on a rate that is 2.95% less than the statutory rate for fiscal year 2020–21 and 2.18% less than the rate set by the board for fiscal year 2021–22. Any remaining amounts must be allocated to reduce the employers' share of the unfunded actuarial obligation of the DB Program. The rate reduction for fiscal year 2019-20 under SB 90 was not changed by AB 84. The employer contribution rates set in statute and the CalSTRS board's authority to adjust those rates starting in fiscal year 2021–22 under the CalSTRS Funding Plan were not changed by the passage of SB 90 or AB 84.

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 2019-20. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 10.205 percent of applicable member earnings for fiscal year 2019-20.

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.

Employers – 7.10 percent of applicable member earnings. This rate reflects the original employer contribution rate of 18.13 percent under AB1469, reduced for the 1.03 percentage points to be paid on behalf of employers pursuant to SB 90.

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

The CalSTRS employer contribution rate increases effective for fiscal year 2019-20 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2019	8.25%	9.88%	17.10% ⁽¹⁾
July 01, 2020	8.25%	10.85%	16.15% ⁽¹⁾
July 01, 2021	8.25%	(2)	(2)
July 01, 2022 to June 30, 2046	8.25%	(2)	(2)
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

- (1) Pursuant to SB 90 and AB 84, the fiscal year 2018-19 state contribution of approximately \$2.2 billion made in advance on behalf of employers will be used to pay the contributions required by employers for the 2019-20, 2020-21 and 2021-22 fiscal years, such that employers will remit 1.030%, 2.950% and 2.180% less, respectively, than is required by the CalSTRS Funding Plan.
- (2) The CalSTRS Funding Plan authorizes the board to adjust the employer contribution rate up or down 1% each year, but no higher than 20.25% total and no lower than 8.25%.

The District contributed \$35,276,179 to the plan for the fiscal year ended June 30, 2020.

State – 10.328 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046.

The state's base contribution to the Defined Benefit Program is calculated based on creditable compensation from two fiscal years prior. The state rate increased to 5.811 percent on July 1, 2019 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. Additionally, the enactment of SB 90 will result in future supplemental contributions to be made by the state to pay down its portion of the unfunded actuarial obligation of the Defined Benefit Program in fiscal years 2019-29 through 2022-23. The CalSTRS state contribution rates effective for fiscal year 2019-20 and beyond are summarized in the table below.

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding⁽¹⁾</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2019	2.017%	5.811%	2.50%	10.328% ⁽²⁾
July 01, 2020	2.017%	5.811% ⁽³⁾	2.50%	10.328% ⁽²⁾
July 01, 2021 to June 30, 2046	2.017%	(4)	2.50%	(4)
July 01, 2046 and thereafter	2.017%	(5)	2.50%	(5)

- (1) This rate does not include the \$72 million reduction in accordance with Education Code Section 22954.
- (2) This rate does not include the \$2.2 billion supplemental state contribution on behalf of employers pursuant to SB 90.
- (3) In May 2020, the CalSTRS board exercised its limited authority to increase the state contribution rate by 0.5% of the creditable compensation effective July 1, 2020. However, pursuant to AB 84, the state suspended the board's rate-setting authority for state contributions for fiscal year 2020–21, thereby negating the board's rate increase of 0.5%.
- (4) The CalSTRS board has limited authority to adjust state contribution rates annually through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure would be reduced to 0 percent.
- (5) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

At June 30, 2020, 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	\$ 344,902,000	
State's proportionate share of the net pension liability associated with the District	188,168,000	<u> </u>
 Total	 \$ 533,070,000	 <u> </u>

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. 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, 2019, the District's proportion was 0.382 percent, which was an increase of 0.033 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$80,847,028 and revenue of \$31,681,498 for support provided by the State. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 871,000	\$ 9,719,000
Changes of assumptions	43,623,000	-
Net differences between projected and actual earnings on investments	-	13,286,000
Changes in proportion and differences between District contributions and proportionate share of contributions	47,880,000	10,395,000
Contributions made subsequent to measurement date	<u>35,276,179</u>	<u> </u>
 Total	 <u>\$ 127,650,179</u>	 <u>\$ 33,400,000</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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

\$35,276,179 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>June 30,</u>		
2021	\$	14,333,117
2022	\$	5,122,117
2023	\$	14,360,117
2024	\$	15,853,115
2025	\$	6,455,367
2026	\$	2,850,167

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, 2019 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, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2018
Experience Study	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.10%
Consumer Price Inflation	2.75%
Wage Growth	3.50%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the CalSTRS board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.8%
Fixed Income	12	1.3
Real Estate	13	3.6
Private Equity	13	6.3
Absolute Return / Risk Mitigating Strategies	9	1.8
Inflation Sensitive	4	3.3
Cash / Liquidity	2	(0.4)

* 20-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:
 The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease <u>(6.10%)</u>	Current Discount Rate <u>(7.10%)</u>	1% Increase <u>(8.10%)</u>
District's proportionate share of the net pension liability	<u>\$ 513,588,000</u>	<u>\$ 344,902,000</u>	<u>\$ 205,030,000</u>

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

NOTE 10 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B

General Information about the Public Employer's Retirement Fund B

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

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at <https://www.calpers.ca.gov/docs/forms-publications/cafr-2019.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.

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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, 2020 were as follows:

Members - The member contribution rate was 7.00 percent of applicable member earnings for fiscal year 2019-20.

Employers - The employer contribution rate was 19.72 percent of applicable member earnings.

The District contributed \$17,031,685 to the plan for the fiscal year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of \$156,309,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. 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, 2019, the District’s proportion was 0.536 percent, which was an increase of 0.025 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$39,287,345. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 11,354,000	\$ -
Changes of assumptions	7,441,000	-
Net differences between projected and actual earnings on investments	-	1,450,000
Changes in proportion and differences between District contributions and proportionate share of contributions	9,465,000	-
Contributions made subsequent to measurement date	<u>17,031,685</u>	<u>-</u>
Total	<u>\$ 45,291,685</u>	<u>\$ 1,450,000</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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

\$17,031,685 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>June 30,</u>	
2021	\$ 17,777,083
2022	\$ 5,785,083
2023	\$ 2,837,084
2024	\$ 410,750

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, 2019 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, 2018, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation Date	June 30, 2018
Experience Study	June 30, 1997 through June 30, 2011
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 15 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, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS’ website.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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

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

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return Years (1-10)⁽¹⁾</u>	<u>Expected Real Rate of Return Years 11+⁽²⁾</u>
Global Equity	50%	4.80%	5.98%
Fixed Income	28	1.00	2.62
Inflation Assets	-	0.77	1.81
Private Equity	8	6.30	7.23
Real Estate Assets	13	3.75	4.93
Liquidity	1	(0.00)	(0.92)

* 10-year geometric average

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

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

Discount Rate: The discount rate used to measure the total pension liability was 7.15 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

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

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020

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

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:
 The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15 percent) or 1-percentage-point higher (8.15 percent) than the current rate:

	1% Decrease <u>(6.15%)</u>	Current Discount Rate <u>(7.15%)</u>	1% Increase <u>(8.15%)</u>
District’s proportionate share of the net pension liability	<u>\$ 225,309,000</u>	<u>\$ 156,309,000</u>	<u>\$ 99,068,000</u>

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

NOTE 11 – JOINT POWERS AGREEMENTS

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

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

Condensed audited financial information for NCRReLiEF for the year ended June 30, 2019 (the latest information available) is as follows:

Total assets	\$ 90,903,300
Total liabilities	\$ 73,773,663
Total net position	\$ 17,129,637
Total revenues	\$ 62,352,151
Total expenditures	\$ 57,522,201
Change in net position	\$ 4,829,950

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 11 – JOINT POWERS AGREEMENTS (Continued)

Schools Association for Excess Risk: The District is a member with other districts in San Joaquin County and the San Joaquin County Office of Education in Schools Association for Excess Risk (SAFER) for the operation of a common risk management and insurance program. SAFER is governed by a board consisting of representatives of member districts. The board controls the operations of SAFER, 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 SAFER for the year ended June 30, 2019 (the latest information available) is as follows:

Total assets	\$ 43,494,593
Total liabilities	\$ 52,232,601
Total net position	\$ (8,738,008)
Total revenues	\$ 67,893,879
Total expenditures	\$ 77,777,714
Change in net position	\$ (9,883,835)

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.

NOTE 12 – CONTINGENCIES

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

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

Construction Commitments: At June 30, 2020, the District had approximately \$4,700,000 in outstanding commitments on construction contracts.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 13 – COVID-19

In December 2019, a novel strain of coronavirus surfaced (COVID-19) and spread around the world, with resulting business and social disruption. In response to the pandemic and in compliance with various state and local ordinances, the District closed physical campuses and transitioned to a distance learning model. On March 13, 2020, the Governor of California issued Executive Order N-26 – 20, guaranteeing state funding to support the continued payment of salaries and benefits to all employees through June 30, 2020.

The operations and business results of the District could be adversely affected in the future including a reduction in the level of funding and impact to the timing of cash flows. Accordingly, there is risk of downgrade of the debt issued by the District. In addition, significant estimates may be adversely impacted by national, state and local events designed to contain the coronavirus. For the 2021 school year, the District is offering instruction in formats consistent with local health guidelines. Throughout the pandemic the District has put into practice a number of safety measures to protect students and employees and will continue to revise them as needed.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2020

	Budget		Actual	Variance Positive (Negative)
	Original	Final		
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 333,164,063	\$ 330,425,572	\$ 327,260,562	\$ (3,165,010)
Local sources	40,423,235	43,777,137	47,403,963	3,626,826
Total LCFF	373,587,298	374,202,709	374,664,525	461,816
Federal sources	33,043,946	54,459,094	38,231,887	(16,227,207)
Other state sources	53,748,587	71,804,165	75,436,228	3,632,063
Other local sources	6,173,766	12,388,902	10,399,599	(1,989,303)
Total revenues	466,553,597	512,854,870	498,732,239	(14,122,631)
Expenditures:				
Current:				
Certificated salaries	200,895,280	198,733,849	195,934,330	2,799,519
Classified salaries	82,075,182	85,803,654	82,730,882	3,072,772
Employee benefits	151,641,683	156,308,322	155,776,826	531,496
Books and supplies	24,667,025	47,896,361	19,064,103	28,832,258
Contract services and operating expenditures	41,995,588	56,204,428	49,799,592	6,404,836
Other outgo	830,213	825,641	1,161,127	(335,486)
Capital outlay	475,991	1,361,367	1,208,696	152,671
Total expenditures	502,580,962	547,133,622	505,675,556	41,458,066
Excess (deficiency) of revenues over (under) expenditures	(36,027,365)	(34,278,752)	(6,943,317)	27,335,435
Other financing sources (uses):				
Transfers in	1,717,955	35,004,702	34,420,970	(583,732)
Transfers out	(500,000)	(500,000)	(2,043,838)	(1,543,838)
Total other financing sources (uses)	1,217,955	34,504,702	32,377,132	(2,127,570)
Change in fund balance	(34,809,410)	225,950	25,433,815	25,207,865
Fund balance, July 1, 2019	112,074,655	112,074,655	112,074,655	-
Fund balance, June 30, 2020	\$ 77,265,245	\$ 112,300,605	\$ 137,508,470	\$ 25,207,865

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
For the Year Ended June 30, 2020

	Last 10 Fiscal Years		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB liability			
Service cost	\$ 6,189,624	\$ 6,375,313	\$ 6,566,572
Interest	4,359,219	4,573,330	4,776,856
Change of assumptions	-	1,588,048	8,503,065
Difference between actual and expected experienc	-	-	(12,611,580)
Benefit payments	<u>(4,929,936)</u>	<u>(4,644,091)</u>	<u>(4,644,091)</u>
Net change in total OPEB liability	5,618,907	7,892,600	2,590,822
Total OPEB liability, beginning of year	<u>117,364,770</u>	<u>122,983,677</u>	<u>130,876,277</u>
Total OPEB liability, end of year	<u>\$ 122,983,677</u>	<u>\$ 130,876,277</u>	<u>\$ 133,467,099</u>
Covered employee payroll	\$ 250,000,000	\$ 282,877,000	\$ 279,600,000
Total OPEB liability as a percentage of covered-employee payroll	49.20%	46.27%	47.74%

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

All years prior to 2018 are not available.

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2020

	State Teachers' Retirement Plan Last 10 Fiscal Years					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of the net pension liability	0.325%	0.320%	0.327%	0.317%	0.349%	0.382%
District's proportionate share of the net pension liability	\$ 189,746,000	\$ 215,767,000	\$ 264,825,000	\$ 292,854,000	\$ 320,787,000	\$ 344,902,000
State's proportionate share of the net pension liability associated with the District	<u>114,578,000</u>	<u>114,117,000</u>	<u>150,775,000</u>	<u>173,251,000</u>	<u>183,666,000</u>	<u>188,168,000</u>
Total net pension liability	<u>\$ 304,324,000</u>	<u>\$ 329,884,000</u>	<u>\$ 415,600,000</u>	<u>\$ 466,105,000</u>	<u>\$ 504,453,000</u>	<u>\$ 533,070,000</u>
District's covered payroll	\$ 144,623,000	\$ 148,755,000	\$ 163,180,000	\$ 179,689,000	\$ 185,796,000	\$ 205,265,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%	162.98%	172.66%	168.03%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%	70.99%	72.56%

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, 2020

	Public Employer's Retirement Fund B Last 10 Fiscal Years					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of the net pension liability	0.503%	0.493%	0.474%	0.463%	0.511%	0.536%
District's proportionate share of the net pension liability	\$ 59,175,446	\$ 78,908,000	\$ 96,785,000	\$ 115,735,000	\$ 136,278,000	\$ 156,309,000
District's covered payroll	\$ 54,130,000	\$ 59,697,000	\$ 59,198,000	\$ 61,741,000	\$ 67,415,000	\$ 74,287,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	109.32%	132.18%	163.49%	187.45%	202.15%	210.41%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%	71.87%	70.85%	70.05%

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

All years prior to 2015 are not available.

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
 For the Year Ended June 30, 2020

State Teachers' Retirement Plan Last 10 Fiscal Years						
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contribution	\$ 13,209,402	\$ 17,509,201	\$ 22,604,934	\$ 27,039,404	\$ 32,746,531	\$ 35,276,179
Contributions in relation to the contractually required contribution	<u>(13,209,402)</u>	<u>(17,509,201)</u>	<u>(22,604,934)</u>	<u>(27,039,404)</u>	<u>(32,746,531)</u>	<u>(35,276,179)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 148,755,000	\$ 163,180,000	\$ 179,689,000	\$ 187,383,000	\$ 201,146,000	\$ 194,574,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43%	16.28%	17.10%*

All years prior to 2015 are not available.

* This rate reflects the original employer contribution rate of 18.13 percent under AB 1469, reduced for the 1.03 percentage points to be paid on behalf of employers pursuant to SB90.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
For the Year Ended June 30, 2020

	Public Employer's Retirement Fund B Last 10 Fiscal Years					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contribution	\$ 7,026,907	\$ 7,013,119	\$ 8,820,816	\$ 7,914,234	\$ 13,949,345	\$ 17,031,685
Contributions in relation to the contractually required contribution	<u>(7,026,907)</u>	<u>(7,013,119)</u>	<u>(8,820,816)</u>	<u>(7,914,234)</u>	<u>(13,949,345)</u>	<u>(17,031,685)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 59,697,000	\$ 59,198,000	\$ 61,741,000	\$ 48,530,000	\$ 77,230,000	\$ 86,363,000
Contributions as a percentage of covered payroll	11.77%	11.85%	14.29%	15.53%	18.06%	19.72%

All years prior to 2015 are not available.

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2020

NOTE 1 - PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

B - Schedule of Changes in the Total Liability

The Schedule of Changes in Total OPEB liability is presented to illustrate the elements of the District's total OPEB liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available. No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

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

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

D - Schedule of the District's Contributions

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

E - Changes of Benefit Terms

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

F - Changes of Assumptions

The discount rate used for the total OPEB liability was 3.50 and 2.20 percent at the June 30, 2019 and 2020 measurement dates, respectively.

The discount rate for Public Employer's Retirement Fund B was 7.50, 7.65, 7.65, 7.15, 7.15 and 7.15 percent in the June 30, 2013, 2014, 2015, 2016, 2017 and 2018 actuarial reports, respectively. The following are the assumptions for State Teachers' Retirement Plan:

<u>Assumption</u>	As of June 30, <u>2019</u>	As of June 30, <u>2018</u>	As of June 30, <u>2017</u>	As of June 30, <u>2016</u>	As of June 30, <u>2015</u>
Consumer price inflation	2.75%	2.75%	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.10%	7.10%	7.60%	7.60%
Wage growth	3.50%	3.50%	3.50%	3.75%	3.75%

SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 ALL NON-MAJOR FUNDS
 June 30, 2020

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total
ASSETS										
Cash in County Treasury	\$ 19,573,465	\$ 1,854,373	\$ (365,929)	\$ 4,310,516	\$ 814,993	\$ 5,574,158	\$ -	\$ 28,006,284	\$ 2,729,852	\$ 62,497,712
Cash in County Treasury restricted for capital projects	-	-	-	-	-	-	15,286,646	-	-	15,286,646
Cash on hand and in banks	-	2,000	-	24,138	-	-	-	-	-	26,138
Cash in revolving fund	582	520	-	-	-	-	-	-	-	1,102
Cash with Fiscal Agent	-	-	-	-	-	-	-	-	7,105,005	7,105,005
Receivables	6,985,613	339,982	3,390,853	1,210,518	2,774	15,586	69,586	465,763	8,785	12,489,460
Due from Grantor Government	-	-	-	-	-	-	-	-	-	-
Due from other funds	315,154	-	52,092	3,069,663	2,003,230	500,000	-	-	1,070,000	7,010,139
Stores Inventory	-	-	-	915,472	-	-	-	-	-	915,472
Total assets	\$ 26,874,814	\$ 2,196,875	\$ 3,077,016	\$ 9,530,307	\$ 2,820,997	\$ 6,089,744	\$ 15,356,232	\$ 28,472,047	\$ 10,913,642	\$ 105,331,674
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 1,810,736	\$ 676,009	\$ 51,270	\$ 201,119	\$ 588,748	\$ 4,448	\$ 990,782	\$ 1,287,455	\$ -	\$ 5,610,567
Unearned revenue	13,653	-	972	-	-	-	1,193,840	-	-	1,208,465
Due to other funds	3,516,404	-	2,016,192	833,005	-	-	3,727,190	1,070,000	-	11,162,791
Total liabilities	5,340,793	676,009	2,068,434	1,034,124	588,748	4,448	5,911,812	2,357,455	-	17,981,823
Fund balances:										
Nonspendable	582	520	-	915,472	-	-	-	-	-	916,574
Restricted	21,533,439	1,520,346	1,008,582	7,580,711	2,232,249	6,085,296	9,444,420	26,114,592	10,913,642	86,433,277
Total fund balance	21,534,021	1,520,866	1,008,582	8,496,183	2,232,249	6,085,296	9,444,420	26,114,592	10,913,642	87,349,851
Total liabilities and fund balances	\$ 26,874,814	\$ 2,196,875	\$ 3,077,016	\$ 9,530,307	\$ 2,820,997	\$ 6,089,744	\$ 15,356,232	\$ 28,472,047	\$ 10,913,642	\$ 105,331,674

STOCKTON UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
 ALL NON-MAJOR FUNDS
 For the Year Ended June 30, 2020

	Charter School Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total
Revenues:										
State appointment	\$ 24,382,161	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ 26,382,161
Federal sources	-	759,624	8,920,139	16,818,632	-	-	-	-	-	26,498,395
Other state sources	4,741,752	6,064,056	7,335,143	1,271,302	-	-	775,000	227,772	-	20,415,025
Other local sources	261,378	82,125	-	124,510	-	2,294,510	1,444,776	33,327,859	209,420	37,744,578
Total revenues	<u>29,385,291</u>	<u>6,905,805</u>	<u>16,255,282</u>	<u>18,214,444</u>	<u>2,000,000</u>	<u>2,294,510</u>	<u>2,219,776</u>	<u>33,555,631</u>	<u>209,420</u>	<u>111,040,159</u>
Expenditures:										
Current:										
Certificated salaries	10,207,976	2,379,474	5,518,859	-	-	-	-	-	-	18,106,309
Classified salaries	1,363,512	553,052	3,406,673	7,157,969	-	-	464,983	-	-	12,946,189
Employee benefits	6,503,883	1,456,709	5,150,640	4,480,692	-	-	243,701	-	-	17,835,625
Books and supplies	493,037	242,348	148,341	6,597,441	-	-	89,237	-	-	7,570,404
Contract services and operating expenditures	5,593,302	1,082,166	267,980	(1,232,845)	163,856	53,203	301,976	-	-	6,229,638
Capital outlay	16,803	-	-	116,215	1,776,076	-	13,359,701	-	-	15,268,795
Other Outgo	-	500,600	-	-	-	-	-	-	-	500,600
Debt Service										
Principal retirement	-	-	-	-	-	1,160,000	-	17,515,000	-	18,675,000
Interest	-	-	-	-	-	1,457,750	-	17,717,504	-	19,175,254
Total expenditures	<u>24,178,513</u>	<u>6,214,349</u>	<u>14,492,493</u>	<u>17,119,472</u>	<u>1,939,932</u>	<u>2,670,953</u>	<u>14,459,598</u>	<u>35,232,504</u>	<u>-</u>	<u>116,307,814</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,206,778</u>	<u>691,456</u>	<u>1,762,789</u>	<u>1,094,972</u>	<u>60,068</u>	<u>(376,443)</u>	<u>(12,239,822)</u>	<u>(1,676,874)</u>	<u>209,420</u>	<u>(5,267,656)</u>
Other financing sources (uses):										
Transfers in	-	-	-	1,543,838	-	500,000	-	-	1,070,000	3,113,838
Transfers out	(355,971)	(721,610)	(796,512)	(833,160)	-	-	(31,713,717)	(1,070,000)	-	(35,490,970)
Debt issuance premiums	-	-	-	-	-	-	-	1,388,602	-	1,388,602
Total other financing sources (uses)	<u>(355,971)</u>	<u>(721,610)</u>	<u>(796,512)</u>	<u>710,678</u>	<u>-</u>	<u>500,000</u>	<u>(31,713,717)</u>	<u>318,602</u>	<u>1,070,000</u>	<u>(30,988,531)</u>
Net change in fund balances	4,850,807	(30,154)	966,277	1,805,650	60,068	123,557	(43,953,539)	(1,358,272)	1,279,420	(36,256,186)
Fund balance, July 1, 2019	16,683,214	1,551,020	42,305	6,690,533	2,172,181	5,961,739	53,397,959	27,472,864	9,634,222	123,606,037
Fund balance, June 30, 2020	<u>\$ 21,534,021</u>	<u>\$ 1,520,866</u>	<u>\$ 1,008,582</u>	<u>\$ 8,496,183</u>	<u>\$ 2,232,249</u>	<u>\$ 6,085,296</u>	<u>\$ 9,444,420</u>	<u>\$ 26,114,592</u>	<u>\$ 10,913,642</u>	<u>\$ 87,349,851</u>

STOCKTON UNIFIED SCHOOL DISTRICT
ORGANIZATION
June 30, 2020

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

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Kathleen Garcia	President	2020
Maria Mendez	Vice President	2022
Cecilia Mendez	Member	2020
Anglann Flores	Member	2022
Lange P. Luntao	Member	2020
Scott McBrien	Member	2022
Candelaria Vargas	Member	2022

ADMINISTRATION

Brian Biedermann
Interim Superintendent

Susanne Montoya
Interim Chief Business Official

Nikolas Howard
Interim Assistant Superintendent, Human Resources

Sonjhia Lowrey
Assistant Superintendent, Educational Services

Mary Jo Cowan
Assistant Superintendent, Educational Support Services

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2020

DISTRICT	<u>Second Period Report</u>	<u>Annual Report</u>
Certificate #:	<u>DBE692D8</u>	<u>B2797956</u>
Elementary:		
Transitional Kindergarten through Third	10,853	10,853
Fourth through Sixth	7,882	7,882
Seventh and Eighth	<u>5,475</u>	<u>5,475</u>
Total Elementary	<u>24,210</u>	<u>24,210</u>
Secondary:		
Ninth through Twelfth	<u>8,713</u>	<u>8,713</u>
Total Secondary	<u>8,713</u>	<u>8,713</u>
	<u><u>32,923</u></u>	<u><u>32,923</u></u>
	<u>Second Period Report</u>	<u>Annual Report</u>
CHARTER SCHOOL- CLASSROOM BASED		
Certificate #:	8E0DAAA6	5C9439D4
<u>Nightingale Elementary Charter School:</u>		
Elementary:		
Transitional Kindergarten through Third	211	211
Fourth through Sixth	131	131
Seventh and Eighth	<u>77</u>	<u>77</u>
Certificate #:	AF78A0F4	D0593DCB
<u>Pittman Elementary Charter School</u>		
Elementary:		
Transitional Kindergarten through Third	349	349
Fourth through Sixth	230	230
Seventh and Eighth	<u>134</u>	<u>134</u>
Subtotal Classroom Based	<u>1,132</u>	<u>1,132</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2020

	Second Period <u>Report</u>	Annual <u>Report</u>
CHARTER SCHOOL- CLASSROOM BASED (Continued)		
Certificate #:	DBEA5C4B	A8EBC699
<u>Stockton Health Careers Academy</u>		
Secondary:		
Ninth through Twelfth	464	464
Certificate #:	823969D4	62A17295
<u>Pacific Law Academy</u>		
Secondary:		
Ninth through Twelfth	203	203
Certificate #:	D2C89B65	13F9685D
<u>Stockton Unified Early College Academy</u>		
Secondary:		
Ninth through Twelfth	427	427
Total Classroom Based	2,226	2,226

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 For the Year Ended June 30, 2020

<u>Grade Level</u>	<u>Statutory Minutes Requirement</u>	<u>2019-2020 Actual Minutes</u>	<u>Number of Days Traditional Calender</u>	<u>Status</u>
DISTRICT				
Kindergarten	36,000	53,100	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	64,824	180	In Compliance
Grade 10	64,800	64,824	180	In Compliance
Grade 11	64,800	64,824	180	In Compliance
Grade 12	64,800	64,824	180	In Compliance
CHARTER SCHOOLS				
<u>Nightingale Elementary Charter School</u>				
Kindergarten	36,000	54,900	180	In Compliance
Grade 1	50,400	54,000	180	In Compliance
Grade 2	50,400	54,000	180	In Compliance
Grade 3	50,400	54,000	180	In Compliance
Grade 4	54,000	54,000	180	In Compliance
Grade 5	54,000	54,000	180	In Compliance
Grade 6	54,000	54,000	180	In Compliance
Grade 7	54,000	58,500	180	In Compliance
Grade 8	54,000	58,500	180	In Compliance
<u>Pittman Elementary Charter School</u>				
Kindergarten	36,000	54,000	180	In Compliance
Grade 1	50,400	54,000	180	In Compliance
Grade 2	50,400	54,000	180	In Compliance
Grade 3	50,400	54,000	180	In Compliance
Grade 4	54,000	54,000	180	In Compliance
Grade 5	54,000	54,000	180	In Compliance
Grade 6	54,000	54,000	180	In Compliance
Grade 7	54,000	57,600	180	In Compliance
Grade 8	54,000	57,600	180	In Compliance

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 For the Year Ended June 30, 2020

<u>Grade Level</u>	<u>Statutory Minutes Requirement</u>	<u>2019-2020 Actual Minutes</u>	<u>Number of Days Traditional Calender</u>	<u>Status</u>
CHARTER SCHOOLS (Continued)				
<u>Stockton Health Careers Academy</u>				
Grade 9	64,800	65,095	180	In Compliance
Grade 10	64,800	65,095	180	In Compliance
Grade 11	64,800	65,095	180	In Compliance
Grade 12	64,800	65,095	180	In Compliance
<u>Pacific Law Academy</u>				
Grade 9	64,800	65,436	180	In Compliance
Grade 10	64,800	65,436	180	In Compliance
Grade 11	64,800	65,436	180	In Compliance
Grade 12	64,800	65,436	180	In Compliance
<u>Stockton Unified Early College Academy</u>				
Grade 9	64,800	65,440	180	In Compliance
Grade 10	64,800	65,440	180	In Compliance
Grade 11	64,800	65,440	180	In Compliance
Grade 12	64,800	65,440	180	In Compliance

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2020

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec. 611	13379	\$ 7,053,680
84.027	Special Education: IDEA Preschool Local Entitlement, Part B, Sec 611 (Age 3-4-5) (17-18)	13682	106,507
84.027A	Special Education: IDEA Mental Health Services, Part B, Sec 611	15321	190,013
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	133,060
84.173A	Special Ed: Alternate Dispute Resolution, Part B, Sec 611	13007	10,528
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	13431	<u>4,277</u>
	Subtotal Special Education Cluster		<u>7,498,065</u>
	Adult Education Programs:		
84.002	Adult Education: Adult Basic Education and Education State Leadership (Section 231)	14508	512,560
84.002A	Adult Education: English Literacy & Civics Education - Local Grant	14109	70,515
84.002	Adult Education: Adult Secondary Education (Section 231)	13978	<u>176,550</u>
	Subtotal Adult Education Program		<u>759,625</u>
	Title III Programs:		
84.365	ESEA: Title III, Immigrant Student Program	15146	26,470
84.365	ESEA: Title III, English Learner Student Program	14346	<u>777,083</u>
	Subtotal Title III Programs		<u>803,553</u>
	Title I Programs:		
84.010	ESEA: Title I, Part A, Basic Grants Low-Income and Neglected	14329	22,385,023
84.010	ESEA: School Improvement Funding for LEAs	15438	<u>750,020</u>
	Subtotal Title I Programs		<u>23,135,043</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2020

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education (continued)</u>			
84.184M	ESEA: Title IV, Part A, Safe and Drug Free Schools and Communities (SDFSC) - Technical Assistance	14378	\$ 254,044
84.060	Indian Education (from Federal Government)	10011	298,950
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	383,284
84.181	Special Education: IDEA Early Intervention Grants	24314	24,701
84.126	Department of Rehabilitation: Workability II, Transition Partnership	10006	225,692
84.196	ESEA: Title IX, Part A, McKinney-Vento Homeless Assistance	14332	75,058
84.367	ESEA: Title II, Part A, Supporting Effective Instruction Local Grants	14341	2,488,749
84.424	ESEA Title IV, Part A, Student Support and Academic Enrichment Grants	15396	<u>1,238,419</u>
	Total U.S. Department of Education		<u>37,185,183</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.600	Head Start - Head Start Cluster	10016	9,820,996
93.778	Medi-Cal Billing Option - Medicaid Cluster	10013	<u>935,506</u>
	Total U.S. Department of Health and Human Services		<u>10,756,502</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs - Child Nutrition Cluster	13396	16,751,980
10.558	Child Nutrition: CACFP Claims- Centers and Family Day Care	13393	<u>72,306</u>
	Total U.S. Department of Agriculture		<u>16,824,286</u>
	Total Federal Programs		<u>\$ 64,765,971</u>

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

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

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2020
(UNAUDITED)

<u>General Fund</u>	(Budget) <u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues and other financing sources	\$ 449,743,632	\$ 533,153,209	\$ 501,729,842	\$ 446,566,893
Expenditures	508,344,921	505,675,556	513,887,906	449,340,475
Other uses and transfers out	<u>500,000</u>	<u>2,043,838</u>	<u>1,063,297</u>	<u>14,159,744</u>
Total outgo	<u>508,844,921</u>	<u>507,719,394</u>	<u>514,951,203</u>	<u>463,500,219</u>
Change in fund balance	\$ <u>(59,101,289)</u>	\$ <u>25,433,815</u>	\$ <u>(13,221,361)</u>	\$ <u>(16,933,326)</u>
Ending fund balance	\$ <u>78,407,181</u>	\$ <u>137,508,470</u>	\$ <u>112,074,655</u>	\$ <u>125,296,016</u>
Available reserves	\$ <u>693,048</u>	\$ <u>677,504</u>	\$ <u>10,188,712</u>	\$ <u>9,251,036</u>
Designated for economic uncertainties	\$ <u>693,048</u>	\$ <u>677,504</u>	\$ <u>10,188,712</u>	\$ <u>9,251,036</u>
Undesignated fund balance	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Available reserves as percentages of total outgo	<u>0.10%</u>	<u>0.13%</u>	<u>2.00%</u>	<u>2.00%</u>
<u>All Funds</u>				
Total long-term liabilities	\$ <u>1,146,455,205</u>	\$ <u>1,167,673,901</u>	\$ <u>1,103,232,058</u>	\$ <u>990,636,661</u>
Average daily attendance at P-2, excluding Charter School	<u>32,904</u>	<u>32,923</u>	<u>33,056</u>	<u>33,030</u>

The fund balance of the General Fund has decreased by \$4,720,872 over the past three years. The fiscal year 2020-2021 budget projects a decrease of \$59,101,289. 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, 2020, the District has not met this requirement.

The District has incurred operating deficits in two of the past three years, and anticipates incurring an operating deficit during the fiscal year ending June 30, 2021.

Total long-term liabilities have increased by \$177,037,240 over the past two years.

Average daily attendance has decreased by 107 over the past two years. The District anticipates a decrease of 19 ADA for the 2020-2021 fiscal year.

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2020

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

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2020

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. 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.

The District submitted a COVID-19 School Closure Certification with the State Superintendent of Public Instruction (SSPI) in connection with the effected school days impacted by COVID-19. The Certification was submitted to the SSPI on July 21, 2020.

C - Schedule of Expenditure of Federal Awards

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

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as expenditures that have not been earned as revenue by June 30, 2020.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 64,730,282
Add:		
Medi-Cal Billing Option funds spent in advance of awards.	93.778	30,036
CACFP expenditures in advance of receipt of claims	10.558	<u>5,653</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 64,765,971</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2020

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 2020-21 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, 2020, 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 *2019-20 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, 2020.

<u>Description</u>	<u>Procedures Performed</u>
Attendance Reporting	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	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General requirements	Yes
After school	Yes
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	No, see below
Charter Schools - Attendance	Yes
Charter Schools - Mode of Instruction	Yes
Charter Schools - Nonclassroom-Based Instruction/Independent Study	No, see below
Charter Schools - Determination of Funding for Nonclassroom-Based Instruction	No, see below
Charter Schools - Annual Instructional Minutes - Classroom-Based	Yes
Charter Schools - 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.

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

The District did not operate as a District of Choice; therefore, we did not perform any procedures related to the District of Choice.

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

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

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on Stockton Unified School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Stockton Unified School District's compliance with the state laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Stockton Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on Compliance with State Laws and Regulations

As described in Finding 2020-001 in the accompanying Schedule of Audit Findings and Questioned Costs, Stockton Unified School District did not comply with the requirements regarding Classroom Teacher Salaries. Compliance with such requirements is necessary, in our opinion, for Stockton Unified School District to comply with the requirements applicable to the state laws and regulations referred to above.

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Stockton Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2020.

Other Matter

Stockton Unified School District's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. Stockton Unified School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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 *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Crowe LLP

Crowe LLP

Sacramento, California
March 30, 2021

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, 2020, 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 March 30, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stockton Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Stockton Unified School District's internal control.

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

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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stockton Unified School District's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Crowe LLP

Sacramento, California
March 30, 2021

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, 2020. Stockton Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Stockton Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

(Continued)

Report on Internal Control Over Compliance

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

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

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

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


Crowe LLP

Sacramento, California
March 30, 2021

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program - School Nutrition Cluster
84.010	Title I Programs
84.367	ESEA: Title II, Part A, Supporting Effective Instruction Local Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$1,942,979

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

STATE AWARDS

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2020-001 - DEFICIENCY - CLASSROOM TEACHER SALARIES (61000)

Criteria

The District's expenditures related to classroom teacher salaries during the audit year, are required to meet or exceed 55% of the total current expense of education in the District's General Fund, as required by Education Code section 41372.

Condition

The District's total current expense of education in the General Fund for the audit year was calculated to be \$461,313,533, and classroom teacher salaries totaled \$247,242,086. The ratio of classroom teacher salaries to the current expense of education is calculated as 53.60%, which is deficient by 1.40% from the requirement of 55%.

Effect

The District did not comply with Classroom Teacher Salaries requirements for the year ended June 30, 2020.

Cause

The District did not establish adequate internal controls to ensure that total expenditures for classroom teacher salaries exceeded the minimum required percentage.

Recommendation

The District's management should implement necessary internal controls to ensure that classroom teacher salaries exceed the minimum required percentage, of the current expense of education in the General Fund.

Views of Responsible Officials and Planned Corrective Action

Management concurs that the ratio for Classroom Teacher Salaries indicates that the District was out of compliance for the year ended June 30, 2020. However, the District subsequently received an approved exemption to the requirements of Education Code section 41372 from the San Joaquin County Office of Education dated November 30, 2020.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2020

2019-001 - MATERIAL WEAKNESS - INTERNAL CONTROL OVER FINANCIAL REPORTING (30000)

Condition: The following areas were noted as deficiencies in internal control which collectively were determined to be a material weakness:

- The District issued two separate General Obligation Bonds series during the year ended June 30, 2019, with a principal value totaling \$70,760,000 in addition to premiums received on the issuance of debt. The net proceeds from both debt issuances were recognized, and the corresponding funds deposited, were posted by San Joaquin County Office of Education in the District's Bond Interest and Redemption Fund (51). The funds received from the debt issuance are intended for the purpose of constructing district facilities and related costs, and therefore should have been reported in the District's Building Fund (21). An adjusting entry was proposed to transfer the net proceeds from debt issuance in the correct governmental fund.
- The District's Qualified Zone Academy Bond (QZAB) with a total principal value of \$5,000,000 matured in November 2018. The District did not recognize the reduction of cash or principal repayment during the year ended June 30, 2019. An adjusting entry was proposed to recognize the repayment of the QZAB, and corresponding reduction to Cash with Fiscal Agent.
- The District did not record the client-proposed journal entry to the Self-Insurance Fund (67) for the prior fiscal year ended June 30, 2018, which updated the claims liability for the District's Workers Compensation program to the estimate per the most recent actuarial valuation. As a result, the opening fund balance per the District's Unaudited Actual financial report did not agree to the audited balance at July 1, 2018. An adjusting entry was proposed to update the opening fund balance for the correcting entry previously proposed by management.

Recommendation: We recommend that the District's management team implement necessary internal controls to ensure the accuracy of financial reporting.

Current Status: Implemented.

District Explanation if Not Implemented: Not applicable.

2019-002 - DEFICIENCY - CLASSROOM TEACHER SALARIES (61000)

Condition: The District's total current expense of education in the General Fund for the audit year was calculated to be \$458,630,340, and classroom teacher salaries totaled \$243,918,582. The ratio of classroom teacher salaries to the current expense of education is calculated as 53.18%, which is deficient by 1.82% or \$8,328,105 from the requirement of 55%.

Recommendation The District's management should implement necessary internal controls to ensure that classroom teacher salaries exceed the minimum required percentage, of the current expense of education in the General Fund.

Current Status: Not Implemented, See current year Finding 2020-001.

District Explanation if Not Implemented: The District's total current expense of education in the General Fund again exceeded the allowable ratio of 55%.