

STOCKTON UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2022

STOCKTON UNIFIED SCHOOL DISTRICT
 FINANCIAL STATEMENTS
 WITH SUPPLEMENTARY INFORMATION
 For the Year Ended June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Stockton Unified School District
Stockton, California

Report on the Audit of the Financial Statements***Opinions***

We have audited 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, 2022, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Stockton Unified School District, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Stockton Unified School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Stockton Unified School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Stockton Unified School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Stockton Unified School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 16 and the General Fund Budgetary Comparison Schedule, Charter School Fund Budgetary Comparison Schedule, the Schedule of Changes in the District's Total Other Postemployment Benefits (OPEB) Liability, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 61 to 67 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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.

(Continued)

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stockton Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and 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. Such information is the responsibility of management and, except for that portion marked "unaudited," was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the 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 15, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 15, 2023



Management's Discussion and Analysis

An overview of the Stockton Unified School District's financial activities for the fiscal year ended June 30, 2022, 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, 2022, the total net position of the District was \$136.2 million, an increase of \$96.5 million from the prior year.
- Total government-wide revenue for the 2022 fiscal year was \$710 million. Expenditures totaled \$614 million. The difference of \$96.5 million accounts for the increase to the District's total net position.
- Capital assets, net of depreciation, increased by \$61.3 million during the year. This includes the completion of a number of projects previously in the Construction in Progress account.
- At June 30, long-term debt totaled \$1.02 billion.

Overview of the Financial Statements

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

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

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

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

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

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

Major Features of the Government-wide and Fund Financial Statements

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

Government-wide Statements

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

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

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

Fund Financial Statements

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

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

There are three types of funds that the District utilizes:

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

Financial Analysis of the District as a Whole

The computation of District net position at June 30, 2022 and 2021 is presented by category in the table below:

	Government-Wide Activities		Year Over Year Change
	2022	2021	
Assets			
Cash and investments	\$ 615,594,928.00	\$ 379,742,202.00	\$ 235,852,726.00
Receivables	63,127,626.00	80,852,630.00	\$ (17,725,004.00)
Prepaid expenses		3,689,264.00	\$ (3,689,264.00)
Stores inventory	1,047,481.00	1,867,733.00	\$ (820,252.00)
Non-depreciable capital assets	154,927,473.00	137,679,869.00	\$ 17,247,604.00
Capital assets, net of depreciation	613,487,576.00	569,428,949.00	\$ 44,058,627.00
Total Assets	1,448,185,084.00	1,173,260,647.00	\$ 274,924,437.00
Deferred Outflows of Resources			
Deferred outflows of resources - pensions	120,507,139	160,449,199	(39,942,060.00)
Deferred outflows of resources - OPEB	8,080,544	8,990,644	(910,100.00)
Deferred loss from refunding of debt	20,615,123	22,036,908	(1,421,785.00)
Total Deferred Outflows	149,202,806	191,476,751	(42,273,945.00)
Liabilities			
Accounts payable	139,197,345	46,126,642	93,070,703.00
Other current liabilities	44,866,163	25,193,275	19,672,888.00
Long-term liabilities	1,018,597,993	1,205,253,761	(186,655,768.00)
Total Liabilities	1,202,661,501	1,276,573,678	(73,912,177.00)
Deferred Inflows of Resources			
Deferred inflows of resources - pensions	224,319,000	37,856,000	186,463,000.00
Deferred inflows of resources - OPEB	34,186,484	10,577,454	23,609,030.00
Total Deferred Inflows	258,505,484	48,433,454	210,072,030.00
Net Position			
Net investment in capital assets	354,599,669	330,292,745	24,306,924
Restricted	207,372,236	173,186,934	34,185,302
Unrestricted	(425,751,000)	(463,749,413)	37,998,413
Total net position	\$ 136,220,905	\$ 39,730,266	\$ 96,490,639

Total assets and deferred outflows increased by a net \$232.7 million during the 2022 fiscal year. Of this total, cash and receivables increased by a net \$218.1 million and total capital assets increased by a net \$61.3 million. Deferred outflows of resources decreased by a net \$42 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 \$136.2 million. Of this amount, accounts payable and other current liabilities increased by \$112.7 million, while long-term debt decreased by \$186.7 million. Deferred inflows increased by \$210.0 million. Long-term debt is discussed in detail in a later section of this report.

The net increase to assets and deferred outflows of \$232.7 million, reduced by the increase of \$136.2 million to liabilities and deferred inflows, results in an increase to the District's net position at June 30, 2022 of approximately \$96.5 million.

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

	Government-Wide Activities		Year Over Year Change
	2022	2021	
Revenues - Program			
Charges for Services	\$ 5,427,311	\$ 3,911,125	\$ 1,516,186
Operating Grants and Contributions	220,427,499	244,957,014	(24,529,515)
Capital Grants and Contributions	-	-	-
Revenues - General			
Unrestricted Federal and State Aid	363,942,441	347,646,712	16,295,729
Taxes Levied for General Purposes	75,733,057	66,164,832	9,568,225
Taxes Levied for Debt Service	34,937,040	37,612,136	(2,675,096)
Taxes Levied for Other Specific Purposes	2,661,702	2,397,695	264,007
Interest and Investment Earnings	829,404	1,214,524	(385,120)
Other General Revenues	6,180,578	2,203,889	3,976,689
Total revenues	710,139,032	706,107,927	4,031,105
Expenses			
Instruction	404,000,899	450,894,526	(46,893,627)
Pupil and Instructional Services	95,594,251	97,306,582	(1,712,331)
General Administration	17,721,405	17,692,775	28,630
Plant Services	69,587,866	64,888,186	4,699,680
Ancillary Serv., Enterprise Activ., Other Outgo, and Interest on Long-Term Liab.	1,963,692	1,953,123	10,569
	24,780,280	30,236,864	(5,456,584)
Total Expenses	613,648,393	662,972,056	(49,323,663)
Increase in Net Position	96,490,639	43,135,871	53,354,768
Net Position, July 1	39,730,266	(3,405,605)	43,135,871
Net Position, June 30	\$ 136,220,905	\$ 39,730,266	\$ 96,490,639

For the 2021-22 fiscal year, total District revenues were \$710.1 million. Total District expenses were \$613.7 million. The difference, \$96.5 million, is an increase to net position at June 30, 2022.

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, showed a slight increase during the 2021-22 year when compared with the prior school year. Enrollment at the end of the second school month was 34,024 students, an increase of 81 students from the 2020-2021 year.

Average Daily Attendance (ADA) also showed a decrease during the 2021-22 year. The ADA for the Second Principal Apportionment (P-2) period totaled 31,549.73 a decrease of 1,304.74 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, 2022 the District had twelve governmental funds reporting a combined fund balance of \$435.2 million, an increase of \$94.5 million over the prior year. Of these funds, eight had revenues which exceeded expenditures, and the remaining funds showed expenditures exceeding revenues. The following table details the fund balances of the individual governmental funds.

Governmental Funds – Fund Balance

Governmental Funds - Fund Balance	Fund Balance - June 30,		Year Over Year Change
	2022	2021	
General Fund	\$ 223,702,603	\$ 164,487,866	\$ 59,214,737
Student Activity Fund	1,543,758	842,363	\$ 701,395
Charter Schools Special Revenue Fund	30,270,518	28,984,235	\$ 1,286,283
Adult Education Fund	635,426	1,017,992	\$ (382,566)
Child Development Fund	816,606	468,079	\$ 348,527
Cafeteria Special Revenue Fund	12,070,452	8,419,278	\$ 3,651,174
Deferred Maintenance fund	764,016	764,016	\$ -
Building Fund	115,174,591	72,642,775	\$ 42,531,816
Capital Facilities Fund	8,956,586	6,483,443	\$ 2,473,143
Special Reserve for Capital Outlay Projects	5,625,307	8,635,315	\$ (3,010,008)
Bond Interest and Redemption Fund	18,732,021	32,170,033	\$ (13,438,012)
Debt Service Fund	16,918,710	15,838,416	\$ 1,080,294
Totals	\$ 435,210,594	\$ 340,753,811	\$ 94,456,783

General Fund – Revenue and Expenditure Analysis

The table below displays unaudited actual General Fund revenue by major category for fiscal year 2022, along with the increase or decrease from fiscal year 2021 and breakdowns by percentage. The table does not include transfers in and other financing sources.

General Fund			
FY-2022 Actual	Percent Of Total	Increase (Decrease) from FY-2021	Percent Increase or (Decrease)

Revenues:

LCFF Sources	\$412,774,005	68.0%	\$36,275,388	8.79%
Federal Revenue	59,644,445	9.8%	-27,153,597	-45.53%
Other State Revenue	115,611,611	19.1%	31,287,469	27.06%
Other Local Revenue	<u>18,598,086</u>	<u>3.1%</u>	<u>6,378,983</u>	34.30%
Total Revenues	<u>\$606,628,147</u>	<u>100.00%</u>	<u>\$46,788,243</u>	7.71%

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-2022 Actual	Percent Of Total	Increase (Decrease) from FY-2021	Percent Increase or (Decrease)
Expenditures:				
Certificated Salaries	\$ 207,722,725	37.89%	\$ 471,106	0.09%
Classified Salaries	89,429,447	16.31%	3,523,759	0.64%
Employee Benefits	162,428,363	29.62%	8,024,214	1.46%
Books and Supplies	28,495,515	5.20%	(9,999,702)	-1.82%
Services, Other Operating Expenses	55,870,286	10.19%	15,274,103	2.79%
Capital Outlay	3,348,120	0.61%	(1,933,294)	-0.35%
Other Outgo/Dir. Supp./ Indirect Costs	<u>994,325</u>	<u>0.18%</u>	<u>(344,137)</u>	-0.06%
Total Expenditures	\$ 548,288,781	100.00%	\$ 15,016,049	

General Fund - Budgetary Highlights

The District's 2022 General Fund operating budget was adopted by the Governing Board in June of 2021. As adopted, budgeted revenues totaled \$728 million and budgeted expenditures totaled \$733.8 million. This resulted in a structural deficit of \$5.8 million. District reserves of \$10.9 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, 2022 are analyzed on the next pages.

Capital Asset and Debt Administration

Capital Assets at Year-End (Net of Depreciation)

	Government-Wide Activities	
	2022	2021
Land	\$ 36,080,997	\$ 36,080,997
Improvement of Sites	13,627,994	8,772,224
Buildings	590,128,114	550,363,377
Equipment	9,731,468	10,293,348
Construction in Progress	<u>118,846,476</u>	<u>101,598,872</u>
Totals	<u>\$ 768,415,049</u>	<u>\$ 707,108,818</u>

The table above reflects capital assets, net of depreciation, at June 30, 2022 and 2021. 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 \$16.7 million for the 2021-22 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 \$61 million during the year. At the end of the 2021-22-year, total funds expended on projects in the construction phase totaled \$118.8 million.

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

Outstanding Debt at Year-End

	Government-Wide Activities	
	2022	2021
General Obligation Bonds, including Premiums	\$ 520,017,424	\$ 440,428,271
Accreted Interest	48,857,886	43,937,294
Certificates of Participation, including Premiums	29,587,670	31,067,485
Net Pension Liability	269,466,000	521,966,000
Total OPEB Liability	128,381,815	145,017,095
Compensated Absences	<u>2,171,198</u>	<u>2,167,616</u>
Total	<u>\$ 998,481,993</u>	<u>\$ 1,184,583,761</u>

At June 30, 2022, long-term debt was \$998.4 million. This represents a decrease of \$186 million from the prior year.

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

Economic Factors and Next Year's Budgets and Rates

The 2022-23 Stockton Unified School District budget has been developed with all components of the proposal presented by Governor Gavin Newsom in January of 2022 and any applicable May Revise and Adopted Budget adjustments.

In January of 2022, Governor Newsom's proposed State budget reflected the strong national and state economies which were in place. The budget called for a 3.84% compounded Cost of Living Adjustment (COLA), which equated to a proposed \$2 billion increase to the Local Control Funding Formula (LCFF). During Governor budget May revision, compounded COLA was expected to increase from 3.84% to 4.05% compounded COLA and "Mega Cola" of 5.07% in Fiscal Year 2021- 2022.

<u>Item</u>	<u>Governor's Budget</u>	<u>May Revision</u>
LCFF Funding Increase	\$ 2 Billion	\$3.2 Billion
2021- 22 Statutory COLA	1.50%	1.70%
2021- 22 Compounded COLA	3.84%	4.05%*
2021- 22 LCFF "Mega" COLA	N/A	5.07%

*Only the special education and community college funding formulas will receive the compound COLA

<u>Item</u>	<u>Governor's Budget</u>	<u>May Revision</u>
LCFF Funding Increase	\$3.3 Billion	\$6.1 Billion
2022-23 Statutory COLA	5.33%	6.56%
One-Time Discretionary Funds	\$0	\$8 Billion

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 2022.

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. The statutory COLA of 5.33 % has 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.

Factors	Gr. K-3	Gr. 4-6	Gr. 7-8	Gr. 9-12
2021-22 Base Grant per ADA	\$ 8,093	\$ 8,215	\$ 8,458	\$ 9,802
Statutory COLA of 6.56%	\$ 531	\$ 539	\$ 555	\$ 643
2022-23 Base Grants	\$ 8,890	\$ 9,024	\$ 9,291	\$ 10,767

LCFF – K-3 CSR 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 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
2022-23 Base Grant per ADA	\$ 8,890	\$ 9,024	\$ 9,291	\$ 10,767
Adjustment Percentae (GSA)	\$ 925	\$ -	\$ -	\$ 280
2022-23 Adjusted Base Grant per ADA	\$ 9,815	\$ 9,024	\$ 9,291	\$ 11,047

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
2022-23 Adjusted Base Grant per ADA	\$ 9,815	\$ 9,024	\$ 9,291	\$ 11,047
20% Supplemental Grant per ADA (Total UPP)	\$ 1,963	\$ 1,805	\$ 1,858	\$ 2,209
65% Concentration Grant per ADA (UPP Above 55%)	\$ 6,380	\$ 5,866	\$ 6,039	\$ 7,181

Other Education Items Included in the State Budget

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

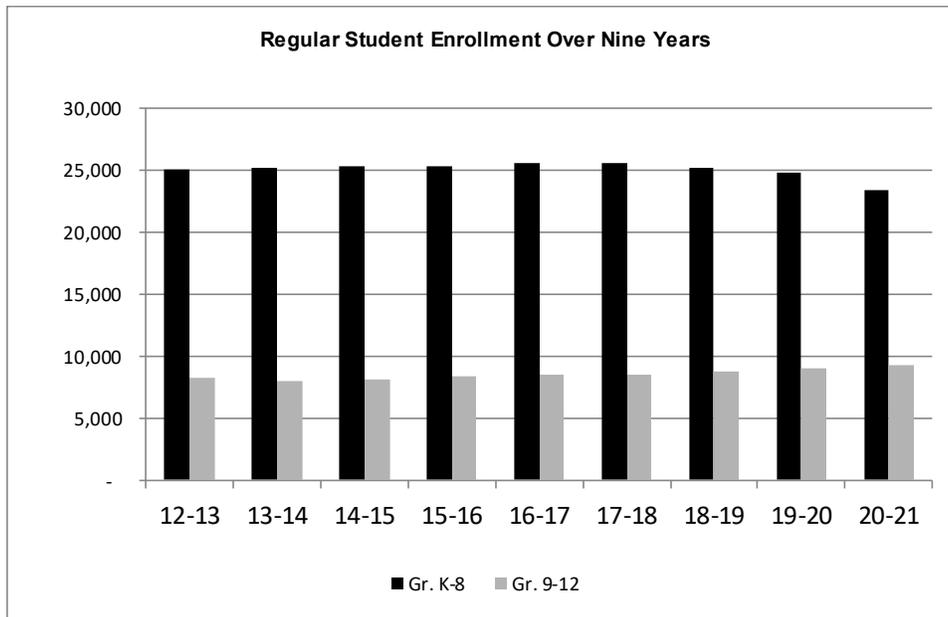
- 2022-23 provider reimbursement rates for General Child Care increased by the statutory 6.56% COLA
- Measures provided to retain essential staff and relieve pressure on local district budgets.

The critical assumptions used in preparing the District’s 2022-23 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 2022-23 school year, enrollment in District schools, including charter schools, totals 33,106.

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 89.0% 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.

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. 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 2022-23 year.

Conclusion

As the Stockton Unified School District approaches the 2022-23 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 Mrs. Joann Juarez, Interim Chief Business Official, Stockton Unified School District, 56 South Lincoln Street, Stockton, CA 95203.

BASIC FINANCIAL STATEMENTS

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2022

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 615,594,928
Receivables	63,127,626
Stores inventory	1,047,481
Non-depreciable capital assets (Note 4)	154,927,473
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>613,487,576</u>
Total assets	<u>1,448,185,084</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - pensions (Notes 9 and 10)	120,507,139
Deferred outflows of resources - OPEB (Note 7)	8,080,544
Deferred loss from refunding of debt	<u>20,615,123</u>
Total deferred outflows	<u>149,202,806</u>
LIABILITIES	
Accounts payable	139,197,345
Claims liability, current (Note 5)	5,162,000
Unearned revenue	39,704,163
Long-term liabilities:	
Claims liability, less current portion (Note 5)	20,116,000
Due within one year (Note 6)	21,045,898
Due after one year (Note 6)	<u>977,436,095</u>
Total liabilities	<u>1,202,661,501</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - pensions (Notes 9 and 10)	224,319,000
Deferred inflows of resources - OPEB (Note 7)	<u>34,186,484</u>
Total deferred inflows	<u>258,505,484</u>
NET POSITION	
Net investment in capital assets	354,599,669
Restricted:	
Legally restricted programs	108,713,650
Capital projects	14,581,893
Debt service	35,650,731
Self-insurance	48,425,962
Unrestricted	<u>(425,751,000)</u>
Total net position	<u>\$ 136,220,905</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

		Program Revenues			Net (Expense) Revenues and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction	\$ 326,614,332	\$ 262,909	\$ 101,669,192	\$ -	\$ (224,682,231)
Instruction-related services:					
Supervision of instruction	41,856,120	57,428	17,998,772	-	(23,799,920)
Instructional library, media and technology	990,381	-	118,488	-	(871,893)
School site administration	34,540,066	6,224	4,352,328	-	(30,181,514)
Pupil services:					
Home-to-school transportation	17,829,530	24,468	19,429,615	-	1,624,553
Food services	21,323,279	16,135	23,231,625	-	1,924,481
All other pupil services	56,441,442	39,031	16,022,456	-	(40,379,955)
General administration:					
Data processing	5,261,534	-	393,924	-	(4,867,610)
All other general administration	12,459,871	14,450	8,093,085	-	(4,352,336)
Plant services	69,587,866	20,812	9,437,006	-	(60,130,048)
Ancillary services	1,949,503	-	757,768	-	(1,191,735)
Enterprise activities	14,189	-	-	-	(14,189)
Interest on long-term liabilities	23,750,955	-	-	-	(23,750,955)
Other outgo	1,029,325	4,985,854	18,923,240	-	22,879,769
	<u>\$ 613,648,393</u>	<u>\$ 5,427,311</u>	<u>\$ 220,427,499</u>	<u>\$ -</u>	<u>(387,793,583)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					75,733,057
Taxes levied for debt service					34,937,040
Taxes levied for other specific purposes					2,661,702
Federal and state aid not restricted to specific purposes					363,942,441
Interest and investment earnings					829,404
Interagency revenues					928,241
Miscellaneous					5,252,337
					<u>484,284,222</u>
					<u>96,490,639</u>
					<u>39,730,266</u>
					<u>\$ 136,220,905</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

	General Fund	Charter School Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
ASSETS						
Cash and investments:						
Cash in County Treasury	\$ 313,724,476	\$ 38,295,711	\$ 107,765,053	\$ 36,878,819	\$ 28,164,147	\$ 524,828,206
Cash on hand and in banks	-	-	-	-	1,901,081	1,901,081
Cash in revolving fund	63,912	582	-	-	2,080	66,574
Cash with Fiscal Agent	1,727,168	-	-	-	10,945,634	12,672,802
Receivables	57,155,056	382,158	-	313,655	5,202,105	63,052,974
Due from other funds	8,281,374	799,117	14,010,106	5,291	7,655,117	30,751,005
Stores inventory	727,329	-	-	-	320,152	1,047,481
	<u>381,679,315</u>	<u>39,477,568</u>	<u>121,775,159</u>	<u>37,197,765</u>	<u>54,190,316</u>	<u>634,320,123</u>
Total assets	<u>\$ 381,679,315</u>	<u>\$ 39,477,568</u>	<u>\$ 121,775,159</u>	<u>\$ 37,197,765</u>	<u>\$ 54,190,316</u>	<u>\$ 634,320,123</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 114,702,391	\$ 4,694,685	\$ 6,600,568	\$ 1,245,638	\$ 1,411,079	\$ 128,654,361
Unearned revenue	38,049,637	758,836	-	-	895,690	39,704,163
Due to other funds	5,224,684	3,753,529	-	17,220,106	4,552,686	30,751,005
	<u>157,976,712</u>	<u>9,207,050</u>	<u>6,600,568</u>	<u>18,465,744</u>	<u>6,859,455</u>	<u>199,109,529</u>
Total liabilities	<u>157,976,712</u>	<u>9,207,050</u>	<u>6,600,568</u>	<u>18,465,744</u>	<u>6,859,455</u>	<u>199,109,529</u>
Fund balances:						
Nonspendable	791,241	582	-	-	322,232	1,114,055
Restricted	62,612,874	30,269,936	115,174,591	18,732,021	47,008,629	273,798,051
Committed	43,793,073	-	-	-	-	43,793,073
Assigned	105,557,150	-	-	-	-	105,557,150
Unassigned	10,948,265	-	-	-	-	10,948,265
	<u>223,702,603</u>	<u>30,270,518</u>	<u>115,174,591</u>	<u>18,732,021</u>	<u>47,330,861</u>	<u>435,210,594</u>
Total fund balances	<u>223,702,603</u>	<u>30,270,518</u>	<u>115,174,591</u>	<u>18,732,021</u>	<u>47,330,861</u>	<u>435,210,594</u>
Total liabilities and fund balances	<u>\$ 381,679,315</u>	<u>\$ 39,477,568</u>	<u>\$ 121,775,159</u>	<u>\$ 37,197,765</u>	<u>\$ 54,190,316</u>	<u>\$ 634,320,123</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, 2022

Total fund balances - Governmental Funds	\$	435,210,594
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 \$1,083,250,385 and the accumulated depreciation is \$314,835,336 (Note 4).		
		768,415,049
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, 2022 consisted of (Note 6):		
General Obligation Bonds and premium	\$ (520,017,424)	
Accreted interest	(48,857,886)	
Certificates of Participation and premium	(29,587,670)	
Net pension liability (Notes 9 and 10)	(269,466,000)	
Total OPEB liability (Note 7)	(128,381,815)	
Compensated absences	<u>(2,171,198)</u>	
		(998,481,993)
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.		
		(8,046,559)
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.		
		20,615,123
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	\$ 120,507,139	
Deferred outflows of resources relating to OPEB	8,080,544	
Deferred inflows of resources relating to pensions	(224,319,000)	
Deferred inflows of resources relating to OPEB	<u>(34,186,484)</u>	
		(129,917,801)
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>48,426,492</u>
Total net position - governmental activities	\$	<u><u>136,220,905</u></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, 2022

	General Fund	Charter School Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total Governmental Funds
Revenues:						
Local Control Funding						
Formula (LCFF):						
State apportionment	\$ 349,365,278	\$ 19,730,981	\$ -	\$ -	\$ -	\$ 369,096,259
Local sources	63,408,727	-	-	-	-	63,408,727
Total LCFF	<u>412,774,005</u>	<u>19,730,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>432,504,986</u>
Federal sources	59,644,445	-	-	-	28,654,040	88,298,485
Other state sources	115,611,611	3,243,257	-	252,943	17,658,795	136,766,606
Other local sources	18,598,086	145,954	458,240	34,756,371	7,169,673	61,128,324
Total revenues	<u>606,628,147</u>	<u>23,120,192</u>	<u>458,240</u>	<u>35,009,314</u>	<u>53,482,508</u>	<u>718,698,401</u>
Expenditures:						
Current:						
Certificated salaries	207,722,725	11,145,722	-	-	8,722,707	227,591,154
Classified salaries	89,429,447	1,426,592	-	-	12,207,463	103,063,502
Employee benefits	162,428,363	6,802,381	-	-	12,052,293	181,283,037
Books and supplies	28,495,515	583,037	377,762	-	8,916,549	38,372,863
Contract services and operating expenditures	55,870,286	1,864,735	4,610,195	-	1,968,433	64,313,649
Other outgo	994,325	-	-	-	35,000	1,029,325
Capital outlay	3,348,120	11,442	65,422,976	-	2,293,733	71,076,271
Debt service:						
Principal retirement	-	-	-	30,250,000	1,280,000	31,530,000
Interest	-	-	-	17,127,326	1,339,000	18,466,326
Total expenditures	<u>548,288,781</u>	<u>21,833,909</u>	<u>70,410,933</u>	<u>47,377,326</u>	<u>48,815,178</u>	<u>736,726,127</u>
Excess of revenues over expenditures	<u>58,339,366</u>	<u>1,286,283</u>	<u>(69,952,693)</u>	<u>(12,368,012)</u>	<u>4,667,330</u>	<u>(18,027,726)</u>
Other financing sources (uses):						
Transfers in	875,371	-	-	-	1,070,000	1,945,371
Transfers out	-	-	-	(1,070,000)	(875,371)	(1,945,371)
Proceeds from debt issuance	-	-	98,000,000	-	-	98,000,000
Debt issuance premiums	-	-	14,484,509	-	-	14,484,509
Total other financing sources (uses)	<u>875,371</u>	<u>-</u>	<u>112,484,509</u>	<u>(1,070,000)</u>	<u>194,629</u>	<u>112,484,509</u>
Change in fund balances	59,214,737	1,286,283	42,531,816	(13,438,012)	4,861,959	94,456,783
Fund balances, July 1, 2021	164,487,866	28,984,235	72,642,775	32,170,033	42,468,902	340,753,811
Fund balances, June 30, 2022	<u>\$ 223,702,603</u>	<u>\$ 30,270,518</u>	<u>\$ 115,174,591</u>	<u>\$ 18,732,021</u>	<u>\$ 47,330,861</u>	<u>\$ 435,210,594</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

Net change in fund balances - Total Governmental Funds	\$ 94,456,783
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).	77,993,220
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(16,686,989)
In governmental funds, proceeds from debt issuance are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities.	(98,000,000)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	31,530,000
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).	(11,639,338)
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).	(4,920,592)
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 incurred.	381,259
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:	8,023,906

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

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):	\$ 24,661,607
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).	(7,883,850)
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>(3,582)</u>
Change in net position of governmental activities	<u>\$ 96,490,639</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION – PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2022

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 75,358,466
Cash with Fiscal Agent	767,270
Cash in Revolving Fund	529
Receivables	<u>74,652</u>
Total current assets	<u>76,200,917</u>

LIABILITIES

Accounts payable	2,496,425
Claims liability, current	<u>5,162,000</u>
Total current liabilities	7,658,425
Claims liability, less current portion	<u>20,116,000</u>
Total liabilities	<u>27,774,425</u>

NET POSITION

Restricted for self-insurance	<u>\$ 48,426,492</u>
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See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN
NET POSITION – PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2022

Operating revenue:	
Self-insurance premiums	\$ 21,893,764
Other local revenues	<u>550,120</u>
Total operating expenses	<u>22,443,884</u>
Operating expenses:	
Classified Salaries	232,734
Employee benefits	118,426
Books and supplies	36,192
Contract services	<u>14,297,716</u>
Total operating expenses	<u>14,685,068</u>
Operating income	7,758,816
Non-operating income:	
Interest income	<u>265,090</u>
Change in net position	8,023,906
Total net position, July 1, 2021	<u>40,402,586</u>
Total net position, June 30, 2022	<u>\$ 48,426,492</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, 2022

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 21,893,764
Cash received from other local revenue	550,120
Cash paid for employee benefits	(4,277,917)
Cash paid for other expenses	<u>(8,732,003)</u>
Net cash provided by operating activities	<u>9,433,964</u>
Cash flows provided by investing activities:	
Interest income received	<u>265,090</u>
Increase in cash and investments	9,699,054
Cash and investments, July 1, 2021	<u>66,427,211</u>
Cash and investments, June 30, 2022	<u>\$ 76,126,265</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>7,758,816</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in receivables	69,589
Increase in accounts payable and claims liability	<u>1,605,559</u>
Total adjustments	<u>1,675,148</u>
Net cash provided by operating activities	<u>\$ 9,433,964</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST FUND
June 30, 2022

	Scholarship <u>Trust</u>
ASSETS	
Cash on hand and in bank (Note 2)	\$ <u>806,328</u>
NET POSITION	
Restricted for scholarships	\$ <u><u>806,328</u></u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
TRUST FUND
For the Year Ended June 30, 2022

	Scholarship <u>Trust</u>
Additions:	
Contributions	\$ <u>19,786</u>
Deductions:	
Contract service and operating expenditures	\$ <u>1,000</u>
Change in net position	18,786
Net position, July 1, 2021	<u>787,542</u>
Net position, June 30, 2022	<u>\$ 806,328</u>

See accompanying notes to financial statements.

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Debt Service 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, 2022

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.

Charter School Fund - The Charter School Fund is a special revenue fund used to account for the proceeds of specific revenue sources that are legally restricted for the District's charter schools.

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.

Bond Interest and Redemption Fund - The Bond Interest and Redemption Fund is a debt service fund used to account for resources used for the accumulation of resources for, and the payment of, general obligation bonds' debt principal, interest, and related costs.

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 Student Activity, 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 Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The Self-Insurance Fund is an Internal Service Fund type that is 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 a Fiduciary Fund type that is used to account for assets held by the District as Trustee. This classification includes the Scholarship Trust Fund.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022.

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 periods, 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 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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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	<u>\$ 85,211,891</u>	<u>\$ 35,295,248</u>	<u>\$ 120,507,139</u>
Deferred inflows of resources	<u>\$ 177,045,000</u>	<u>\$ 47,274,000</u>	<u>\$ 224,319,000</u>
Net pension liability	<u>\$ 147,036,000</u>	<u>\$ 122,430,000</u>	<u>\$ 269,466,000</u>
Pension expense	<u>\$ 24,173,654</u>	<u>\$ 21,415,274</u>	<u>\$ 45,588,928</u>

Compensated Absences: Compensated absences totaling \$2,171,198 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 an 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 self-insurance represents the portion of net position restricted for the District's self-insured activities. 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, 2022

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, 2022, 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, 2022 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, 2022

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, 2022, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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

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

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

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

New Accounting Pronouncements: New Accounting Pronouncements: In June 2017, the GASB issued GASB Statement No. 87, *Leases*. GASB Statement No. 87 requires the recognition of certain assets and liabilities for leases which previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement a lease is required to be recognized as a lease liability with a corresponding intangible right-to-use lease asset. Additionally, the lessor is required to recognize a lease receivable and corresponding deferred inflow of resources. This statement was originally effective for fiscal years beginning after December 15, 2019, but due to the adoption of GASB Statement No. 95, the implementation date was extended to reporting periods beginning after June 15, 2021. The District has determined the implementation of this Statement was not material to the District's financial position.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2022 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	\$ 524,828,206	\$ 75,358,466	\$ 600,186,672	\$ -
Deposits:				
Cash on hand and in banks	1,901,081	-	1,901,081	806,328
Cash in revolving fund	66,574	529	67,103	-
Investments:				
Cash with Fiscal Agent	12,672,802	767,270	13,440,072	-
Total cash and cash investments	\$ 539,468,663	\$ 76,126,265	\$ 615,594,928	\$ 806,328

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, 2022, the carrying amount of the District's accounts was \$2,774,512 and the bank balance was \$1,900,594. Total uninsured bank balances were \$1,650,594.

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

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

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2022, 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, 2022, the District had no concentration of credit risk.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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, 2022 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 8,281,374	\$ 5,224,684
Charter School	799,117	3,753,529
Building	14,010,106	-
Bond Interest and Redemption	5,291	17,220,106
Non-Major Funds:		
Adult Education	-	125,946
Child Development	41,163	154,304
Cafeteria	3,082,161	1,358,786
Deferred Maintenance	6,803	-
Capital Facilities	500,000	-
Special Reserve for Capital Outlay Projects	814,990	2,913,650
Debt Service	3,210,000	-
Totals	<u>\$ 30,751,005</u>	<u>\$ 30,751,005</u>

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

Transfers for the 2021-2022 fiscal year were as follows:

Transfer from the Adult Education Fund to the General Fund for indirect costs.	\$ 180,347
Transfer from the Child Development Fund to the General Fund for indirect costs.	681,942
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	13,082
Transfer from the Bond Interest and Redemption Fund to the Debt Service Fund for the annual sinking fund deposit.	<u>1,070,000</u>
	<u>\$ 1,945,371</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 4 - CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2022 is shown below:

	Balance July 1, <u>2021</u>	Transfers and <u>Additions</u>	Transfers and <u>Deductions</u>	Balance June 30, <u>2022</u>
<u>Governmental Activities</u>				
Non-depreciable:				
Land	\$ 36,080,997	\$ -	\$ -	\$ 36,080,997
Work-in-process	101,598,872	77,329,202	(60,081,598)	118,846,476
Depreciable:				
Buildings	820,986,945	54,559,657	-	875,546,602
Site improvements	16,135,750	5,521,941	-	21,657,691
Equipment	<u>30,454,601</u>	<u>664,018</u>	<u>-</u>	<u>31,118,619</u>
Totals, at cost	<u>1,005,257,165</u>	<u>138,074,818</u>	<u>(60,081,598)</u>	<u>1,083,250,385</u>
Less accumulated depreciation:				
Buildings	(270,623,568)	(14,794,920)	-	(285,418,488)
Site improvements	(7,363,526)	(666,171)	-	(8,029,697)
Equipment	<u>(20,161,253)</u>	<u>(1,225,898)</u>	<u>-</u>	<u>(21,387,151)</u>
Total accumulated depreciation	<u>(298,148,347)</u>	<u>(16,686,989)</u>	<u>-</u>	<u>(314,835,336)</u>
Capital assets, net	<u>\$ 707,108,818</u>	<u>\$ 121,387,829</u>	<u>\$ (60,081,598)</u>	<u>\$ 768,415,049</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 16,007,273
Home-to-school transportation	299,514
Food services	179,138
All other general administration	96,072
Centralized data processing	52,666
Plant services	<u>52,326</u>
Total depreciation expense	<u>\$ 16,686,989</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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 contracted 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 from July 1, 2005 onward, 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 studies for the District's self-insured programs were completed as of June 30, 2021. 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>2021</u>	June 30, <u>2022</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 24,548,000	\$ 24,610,000
Total incurred claims and claim adjustment expenses	3,988,757	6,377,056
Total payments	<u>(3,926,757)</u>	<u>(5,709,056)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 24,610,000</u>	<u>\$ 25,278,000</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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.

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.

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. The 2016 Refunding bonds bear interest at rates ranging from 2.0% to 5.0% and are scheduled to mature through fiscal year 2033.

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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 6 - LONG-TERM LIABILITIES (Continued)

On October 26, 2021, the District issued Election of 2018, Series B General Obligation Bonds totaling \$98,000,000. The Bonds were issued as current interest bonds and bear interest at rates ranging from 0.20% to 4.00%, with maturities through August 2046.

A summary of General Obligation Bonds payable as of June 30, 2022 follows:

<u>Series</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Balance July 1, 2021</u>	<u>Current Year Issuance</u>	<u>Matured Current Year</u>	<u>Balance June 30, 2022</u>
2008 Series B	2.19%	2026	\$ 16,040,000	\$ -	\$ -	\$ 16,040,000
2008 Series C	5.17-7.08%	2028	8,900,000	-	1,210,000	7,690,000
2008 Series D	5.89-7.72%	2051	43,622,363	-	-	43,622,363
2012 Refunding Bonds	3.00-5.00%	2029	28,560,000	-	3,655,000	24,905,000
2012 Series A	3.00-5.00%	2043	58,525,000	-	380,000	58,145,000
2014A Refunding Bonds	4.00-5.00%	2040	35,110,000	-	595,000	34,515,000
2012 Series B	3.00-5.00%	2041	23,440,000	-	530,000	22,910,000
2016 Refunding Bonds	2.00-5.00%	2033	108,480,000	-	6,320,000	102,160,000
2012 Series C	3.75-5.00%	2044	57,300,000	-	400,000	56,900,000
2014 Series B	4.00-5.00%	2022	3,260,000	-	3,260,000	-
2018 Series A	2.50-5.00%	2046	28,600,000	-	2,400,000	26,200,000
2018 Series B	0.20-4.00%	2046	-	98,000,000	11,500,000	86,500,000
Total			<u>\$ 411,837,363</u>	<u>\$ 98,000,000</u>	<u>\$ 30,250,000</u>	<u>\$ 479,587,363</u>

The annual requirements to amortize the General Obligation Bonds Payable and outstanding as of June 30, 2022 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 16,830,000	\$ 18,460,228	\$ 35,290,228
2024	20,836,028	18,522,735	39,358,763
2025	22,121,369	18,011,112	40,132,481
2026	35,630,308	16,904,221	52,534,529
2027	19,417,899	16,528,987	35,946,886
2028-2032	105,013,500	89,964,570	194,978,070
2033-2037	86,028,165	97,770,226	183,798,391
2038-2042	100,965,620	80,196,745	181,162,365
2043-2047	51,807,691	59,217,697	111,025,388
2048-2052	20,936,783	60,522,753	81,459,536
	<u>\$ 479,587,363</u>	<u>\$ 476,099,274</u>	<u>\$ 955,686,637</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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>
2023	\$ 2,615,000
2024	2,618,000
2025	2,612,500
2026	2,613,750
2027	2,616,250
2028-2032	13,088,500
2033-2036	<u>9,678,250</u>
Total payments	35,842,250
Less amount representing interest	<u>(10,342,250)</u>
Net present value of minimum payments	<u>\$ 25,500,000</u>

Schedule of Changes in Long-Term Liabilities: A schedule of changes in long-term liabilities for the year ended June 30, 2022 is shown below:

	Balance <u>July 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2022</u>	Amounts Due Within <u>One Year</u>
<u>Debt:</u>					
General Obligation Bonds	\$ 411,837,363	\$ 98,000,000	\$ 30,250,000	\$ 479,587,363	\$ 16,830,000
General Obligation Bonds Premium	28,590,908	14,484,509	2,645,356	40,430,061	2,666,242
Accreted interest	43,937,294	4,920,592	-	48,857,886	-
Certificates of Participation	26,780,000	-	1,280,000	25,500,000	1,340,000
Certificates of Participation Premium	4,287,485	-	199,815	4,087,670	209,656
<u>Other long-term liabilities</u>					
Net pension liability (Notes 9 and 10)	521,966,000	-	252,500,000	269,466,000	-
Total OPEB liability (Note 7)	145,017,095	-	16,635,280	128,381,815	-
Compensated absences	2,167,616	3,582	-	2,171,198	-
	<u>\$ 1,184,583,761</u>	<u>\$ 117,408,683</u>	<u>\$ 303,510,451</u>	<u>\$ 998,481,993</u>	<u>\$ 21,045,898</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, 2022

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, 2022 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, 2022:

	<u>Number of Participants</u>
Inactive Plan members, covered spouses, or beneficiaries currently receiving benefits	653
Active Employees	<u>3,086</u>
	<u><u>3,739</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 \$3,326,191 for the year ended June 30, 2022. Employees are not required to contribute to the OPEB plan.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021.

Actuarial Assumptions: The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Mortality Rate</u>	2020 CalSTRS Mortality for Certificated Employees. 2017 CalPERS Mortality for others.
<u>Discount Rate as of June 30, 2022</u>	3.54%. 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>	2.50% per year
<u>Salary Increases</u>	2.75% per year
<u>Spouse Coverage</u>	80% 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>Participation Rates</u>	Of current and future participating retirees under Age 65, 90% are expected to participate in the Plan. 70% of employees are expected to participate in Medicare upon reaching age 65.
<u>Costs for Retiree Coverage</u>	Retiree liabilities are based on actual retiree premiums plus an implicit rate subsidy of 73.9% of non-Medicare medical premium. Liabilities for active participants vary and are based on the first costs adjusted for an implicit rate subsidy. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at July 1, 2021	\$ 145,017,095
Changes for the year:	
Service cost	10,521,252
Interest	3,210,076
Benefit payments	(3,326,191)
Experience (Gains)/Losses	(3,408,344)
Changes in assumptions	<u>(23,632,073)</u>
Net change	<u>(16,635,280)</u>
Balance at June 30, 2022	<u>\$ 128,381,815</u>

The change of assumptions in the June 30, 2022 measurement included a change in the discount rate from 2.16% in the prior valuation, to 3.54% 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>(2.54%)</u>	Current Discount Rate <u>(3.54%)</u>	1% Increase <u>(4.54%)</u>
Total OPEB liability	<u>\$ 144,878,017</u>	<u>\$ 128,381,815</u>	<u>\$ 114,617,195</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>(3.0%)</u>	Healthcare Cost Trend Rates Rate <u>(4.0%)</u>	1% Increase <u>(5.0%)</u>
Total OPEB liability	<u>\$ 111,469,928</u>	<u>\$ 128,381,815</u>	<u>\$ 149,813,549</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$11,210,041.

At June 30, 2022 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	\$ 8,080,544	\$ 21,522,066
Difference between expected and actual experience	-	12,664,418
	\$ 8,080,544	\$ 34,186,484

The changes in assumptions and differences in actual and expected experience will be recognized into OPEB expense as follows:

Year Ending <u>June 30,</u>	
2023	\$ (2,521,287)
2024	\$ (2,521,287)
2025	\$ (2,521,287)
2026	\$ (2,521,287)
2027	\$ (2,521,287)
Thereafter	\$ (13,499,505)

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 8 - FUND BALANCE

Fund balances, by category, at June 30, 2022 consisted of the following:

	General Fund	Charter School Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:						
Revolving cash fund	\$ 63,912	\$ 582	\$ -	\$ -	\$ 2,080	\$ 66,574
Stores inventory	<u>727,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,152</u>	<u>1,047,481</u>
Subtotal nonspendable	<u>791,241</u>	<u>582</u>	<u>-</u>	<u>-</u>	<u>322,232</u>	<u>1,114,055</u>
Restricted:						
Legally restricted:						
Grants	62,612,874	-	-	-	-	62,612,874
Charter schools	-	30,269,936	-	-	-	30,269,936
Cafeteria	-	-	-	-	11,748,740	11,748,740
Deferred maintenance	-	-	-	-	764,016	764,016
Other programs	-	-	-	-	2,995,270	2,995,270
Capital projects	-	-	115,174,591	-	14,581,893	129,756,484
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,732,021</u>	<u>16,918,710</u>	<u>35,650,731</u>
Subtotal restricted	<u>62,612,874</u>	<u>30,269,936</u>	<u>115,174,591</u>	<u>18,732,021</u>	<u>47,008,629</u>	<u>273,798,051</u>
Committed:						
Fiscal solvency reserves (8%)	<u>43,793,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,793,073</u>
Subtotal Committed	<u>43,793,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,793,073</u>
Assigned:						
Reserve for future deficit spending	60,000,000	-	-	-	-	60,000,000
Reserved for declining enrollment	33,557,150	-	-	-	-	33,557,150
One time-lottery carryover	<u>12,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,000,000</u>
Subtotal assigned	<u>105,557,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,557,150</u>
Unassigned:						
Designated for economic uncertainty	<u>10,948,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,948,265</u>
Total fund balances	<u>\$ 223,702,603</u>	<u>\$ 30,270,518</u>	<u>\$ 115,174,591</u>	<u>\$ 18,732,021</u>	<u>\$ 47,330,861</u>	<u>\$ 435,210,594</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>.

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, up to the 2.4 percent maximum.

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.

(Continued)

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

CalSTRS 2% at 62

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

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for 36 consecutive months of credited service.

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Current contribution rates were established by California Assembly Bill 1469 (CalSTRS Funding Plan), which was passed into law in June 2014, and various subsequent legislation. The CalSTRS Funding Plan established a schedule of contribution rate increases shared among members, employers, and the State of California to bring CalSTRS toward full funding by fiscal year 2046. California Senate Bill 90 and California Assembly Bill 84 (collectively the "Special Legislation") were signed into law in June 2019 and June 2020, respectively, and provided supplemental contributions to the DB Program along with supplemental contribution rate relief to employers through fiscal year 2021–22. A summary of statutory contribution rates and other sources of contributions to the DB Program pursuant to the CalSTRS Funding Plan and the Special Legislation, are as follows:

Members - Under CalSTRS 2% at 60, the member contribution rate was 10.250 percent of applicable member earnings for fiscal year 2021-2022.

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 2021-2022. According to current law, the contribution rate for CalSTRS 2% at 62 members is adjusted if the normal cost increases or decreases by more than 1 percent since the last time the member contribution rate was set. Based on the June 30, 2020 valuation adopted by the board in June 2021, the increase in normal cost was less than 1 percent. Therefore, the contribution rate for CalSTRS 2% at 62 members did not change effective July 1, 2021.

Employers – 16.920 percent of applicable member earnings. This rate reflects the original employer contribution rate of 19.10 percent resulting from the CalSTRS Funding Plan, and subsequently reduced for the 2.18 percent, to be paid on behalf of employers pursuant to the Special Legislation.

Beginning in fiscal year 2021–22, the CalSTRS Funding Plan authorizes the board to adjust the employer supplemental contribution rate up or down by a maximum of 1% for a total rate of no higher than 20.25% and no lower than 8.25%. In June 2021, the CalSTRS board voted to keep the employer supplemental contribution rate the same for fiscal year 2021–22; it remained at 10.85% effective July 1, 2021.

Through the Special Legislation approved in June 2019 and June 2020, the State made supplemental contributions of approximately \$2.2 billion to CalSTRS on behalf of employers to supplant the amounts submitted by employers for fiscal years 2019–20 through 2021–22. Specifically, employers will remit 1.03%, 2.95% and 2.18% less than is required by the CalSTRS Funding Plan for fiscal years 2019–20, 2020–21 and 2021–22, respectively.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

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

The CalSTRS employer contribution rates effective for fiscal year 2021-2022 through fiscal year 2046-47 are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>Supplemental Rate Per CalSTRS Funding Plan</u>	<u>Rate Adjustment Per Special Legislation</u>	<u>Total</u>
July 1, 2021	8.250%	10.850%	(2.180%)	16.920%
July 1, 2022 to June 30, 2046	8.250%	(1)	N/A	(1)
July 1, 2046	8.250%	Increase from AB 1469 rate ends in 2046-47		

(1) The CalSTRS Funding Plan authorizes the board to adjust the employer contribution rate up or down by up to 1% each year, but no higher than 20.250% total and no lower than 8.250%.

The District contributed \$35,456,891 to the plan for the fiscal year ended June 30, 2022.

State – 10.828 percent of the members’ calculated based on creditable compensation from two fiscal years prior.

The state is required to contribute a base contribution rate set in statute at 2.017%. Pursuant to the CalSTRS Funding Plan, the state also has a supplemental contribution rate, which the board can increase by up to 0.5% each fiscal year to help eliminate the state’s share of the CalSTRS unfunded actuarial obligation by 2046. In June 2021, the board approved an increase of 0.5% for fiscal year 2021–22, which will increase the state supplemental contribution rate to 6.311% effective July 1, 2021.

Special legislation appropriated supplemental state contributions to reduce the state’s portion of the unfunded actuarial obligation of the DB Program in fiscal years 2019-20 through 2022-23. These contributions are funded from future excess General Fund revenues, pursuant to the requirements of California Proposition 2, Rainy-Day Budget Stabilization Fund Act, which passed in 2014. Accordingly, the contribution amounts are subject to change each year based on the availability of funding. For fiscal year 2020–21, CalSTRS received \$297.0 million in supplemental state contributions from Proposition 2 funds. Of this total, approximately \$170.0 million is designated to cover forgone contributions due to the suspension of the 0.5% increase to the state supplemental contribution rate in fiscal year 2020–21. The remaining \$127.0 million is designated to reduce the state’s share of CalSTRS’ unfunded actuarial obligation.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

The CalSTRS state contribution rates effective for fiscal year 2021-2022 and beyond are summarized in the table below.

<u>Effective Date</u>	<u>Base Rate</u>	<u>Supplemental Rate Per CalSTRS Funding Plan</u>	<u>SBMA Funding⁽¹⁾</u>	<u>Total</u>
July 01, 2021	2.017%	6.311%	2.50%	10.828%
July 01, 2022 to June 30, 2046	2.017%	(2)	2.50%	(2)
July 01, 2046	2.017%	(3)	2.50%	(3)

- (1) The SBMA contribution rate excludes the \$72 million that is reduced from the required contribution in accordance with Education Code section 22954.
- (2) The board has limited authority to adjust the state contribution rate annually through June 2046 in order to eliminate the remaining unfunded actuarial obligation. The board cannot increase the supplemental rate by more than 0.5% in a fiscal year, and if there is no unfunded actuarial obligation, the supplemental contribution rate imposed would be reduced to 0%.
- (3) From July 1, 2046, and thereafter, the rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining unfunded actuarial obligation.

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

At June 30, 2022, 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	\$ 147,036,000
State's proportionate share of the net pension liability associated with the District	<u>87,484,000</u>
Total	<u>\$ 234,520,000</u>

The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. 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, 2021, the District's proportion was 0.323 percent, which was a decrease of 0.031 percent from its proportion measured as of June 30, 2020.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

For the year ended June 30, 2022, the District recognized pension expense of \$24,173,654 and revenue of \$24,575,729 for support provided by the State. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 368,000	\$ 15,648,000
Changes of assumptions	20,833,000	-
Net differences between projected and actual earnings on investments	-	116,309,000
Changes in proportion and differences between District contributions and proportionate share of contributions	28,554,000	45,088,000
Contributions made subsequent to measurement date	<u>35,456,891</u>	<u>-</u>
Total	<u>\$ 85,211,891</u>	<u>\$ 177,045,000</u>

\$35,456,891 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, 2023. 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>	
2023	\$ (23,196,717)
2024	\$ (22,268,717)
2025	\$ (29,834,716)
2026	\$ (37,834,716)
2027	\$ (8,768,467)
2028	\$ (5,386,667)

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 7 years as of the June 30, 2021 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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

Actuarial Methods and Assumptions: The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2020
Experience Study	July 1, 2015 through June 30, 2018
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, maintain 85% Purchasing power level for DB, not applicable for DBS/CBB

Discount Rate: The discount rate used to measure the total pension liability was 7.10 percent, which was unchanged from the prior fiscal year. 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.

Mortality: 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-2019) table, issued by the Society of Actuaries.

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 investment staff and investment consultants as inputs to the process.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

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

The actuarial investment rate of return assumption was adopted by the CalSTRS board in January 2020 in conjunction with the most recent experience study. For each current and 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>
Public Equity	42%	4.8%
Real Estate Assets	15	3.6
Private Equity	13	6.3
Fixed Income	12	1.3
Risk Mitigating Strategies	10	1.8
Inflation Sensitive	6	3.3
Cash / Liquidity	2	(0.4)

* 20-year geometric average

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>\$ 299,313,000</u>	<u>\$ 147,036,000</u>	<u>\$ 20,649,000</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.

(Continued)

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 non-certified 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/acfr-2021.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.

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, 2022 were as follows:

Members - The member contribution rate was 7.0 percent of applicable member earnings for fiscal year 2021-22.

Employers - The employer contribution rate was 22.91 percent of applicable member earnings.

The District contributed \$20,230,248 to the plan for the fiscal year ended June 30, 2022.

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

At June 30, 2021, the District reported a liability of \$122,430,000 or its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. 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, 2021 the District’s proportion was 0.602 percent, which was an increase of 0.018 percent from its proportion measured as of June 30, 2020.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

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

For the year ended June 30, 2022, the District recognized pension expense of \$21,415,274. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,655,000	\$ 289,000
Net differences between projected and actual earnings on investments	-	46,985,000
Changes in proportion and differences between District contributions and proportionate share of contributions	11,410,000	-
Contributions made subsequent to measurement date	<u>20,230,248</u>	<u>-</u>
Total	<u>\$ 35,295,248</u>	<u>\$ 47,274,000</u>

\$20,230,248 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, 2023. 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>	
2023	\$ (3,166,583)
2024	\$ (5,857,583)
2025	\$ (10,117,084)
2026	\$ (13,067,750)

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, 2021 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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

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

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, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2020
Experience Study	June 30, 1997 through June 30, 2015
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.15%
Consumer Price Inflation	2.50%
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 2.50% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90% of Scale MP 2016. For more details on this table, please refer to the 2017 experience study report. All other actuarial assumptions used in the June 30, 2020 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.

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	-	(0.92)

* 10-year geometric average

(1) An expected inflation rate of 2.00% used for this period.

(2) An expected inflation rate of 2.92% 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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

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

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 pension fund cash flows. Using historical and forecasted information for all the funds’ 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 for each fund. 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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>\$ 206,434,000</u>	<u>\$ 122,430,000</u>	<u>\$ 52,689,000</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.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE 11 – JOINT POWERS AGREEMENTS

The District participates in certain joint ventures under joint powers agreements, as follows:

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

Condensed audited financial information for NCReLiEF for the year ended June 30, 2022 is as follows:

Total assets	\$ 82,004,796
Total liabilities	\$ 51,323,041
Total net position	\$ 30,681,755
Total revenues	\$ 78,041,010
Total expenditures	\$ 63,589,183
Change in net position	\$ 14,451,827

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.

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, 2021 (the most recent information available) is as follows:

Total assets	\$ 43,779,353
Total liabilities	\$ 41,873,705
Total net position	\$ 1,905,648
Total revenues	\$ 101,923,130
Total expenditures	\$ 101,673,081
Change in net position	\$ 250,049

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, 2022

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, 2022, the District had approximately \$22.6 million in outstanding commitments on construction contracts.

REQUIRED SUPPLEMENTARY INFORMATION

STOCKTON UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

	<u>Budget</u>		<u>Actual</u>	Variance Positive (<u>Negative</u>)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 337,612,473	\$ 343,425,365	\$ 349,365,278	\$ 5,939,913
Local sources	<u>58,651,812</u>	<u>69,174,934</u>	<u>63,408,727</u>	<u>(5,766,207)</u>
Total LCFF	<u>396,264,285</u>	<u>412,600,299</u>	<u>412,774,005</u>	<u>173,706</u>
Federal sources	219,419,167	95,456,065	59,644,445	(35,811,620)
Other state sources	107,100,563	121,726,169	115,611,611	(6,114,558)
Other local sources	<u>5,239,746</u>	<u>7,366,316</u>	<u>18,598,086</u>	<u>11,231,770</u>
Total revenues	<u>728,023,761</u>	<u>637,148,849</u>	<u>606,628,147</u>	<u>(30,520,702)</u>
Expenditures:				
Current:				
Certificated salaries	196,307,865	210,513,026	207,722,725	2,790,301
Classified salaries	84,921,507	90,411,005	89,429,447	981,558
Employee benefits	162,045,641	165,962,627	162,428,363	3,534,264
Books and supplies	245,500,490	92,004,440	28,495,515	63,508,925
Contract services and operating expenditures	45,792,826	67,809,340	55,870,286	11,939,054
Other outgo	(1,129,474)	(394,733)	994,325	(1,389,058)
Capital outlay	<u>350,464</u>	<u>5,674,800</u>	<u>3,348,120</u>	<u>2,326,680</u>
Total expenditures	<u>733,789,319</u>	<u>631,980,505</u>	<u>548,288,781</u>	<u>83,691,724</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(5,765,558)</u>	<u>5,168,344</u>	<u>58,339,366</u>	<u>53,171,022</u>
Other financing sources (uses):				
Transfers in	<u>(629,474)</u>	<u>104,887</u>	<u>875,371</u>	<u>770,484</u>
Total other financing sources (uses)	<u>(629,474)</u>	<u>104,887</u>	<u>875,371</u>	<u>770,484</u>
Change in fund balance	(6,395,032)	5,273,231	59,214,737	53,941,506
Fund balance, July 1, 2021	<u>164,487,866</u>	<u>164,487,866</u>	<u>164,487,866</u>	<u>-</u>
Fund balance, June 30, 2022	<u>\$ 158,092,834</u>	<u>\$ 169,761,097</u>	<u>\$ 223,702,603</u>	<u>\$ 53,941,506</u>

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
 CHARTER SCHOOL FUND
 BUDGETARY COMPARISON SCHEDULE
 For the Year Ended June 30, 2022

	<u>Budget</u>		<u>Actual</u>	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local Control Funding Formula (LCFF):				
State apportionment	\$ 24,020,331	\$ 23,709,472	\$ 19,730,981	\$ (3,978,491)
Other state sources	3,952,431	3,905,089	3,243,257	(661,832)
Other local sources	<u>14,191</u>	<u>278,935</u>	<u>145,954</u>	<u>(132,981)</u>
Total revenues	<u>27,986,953</u>	<u>27,893,496</u>	<u>23,120,192</u>	<u>(4,773,304)</u>
Expenditures:				
Current:				
Certificated salaries	10,800,847	11,061,214	11,145,722	(84,508)
Classified salaries	1,422,939	1,447,506	1,426,592	20,914
Employee benefits	6,168,260	7,509,204	6,802,381	706,823
Books and supplies	25,864,205	21,221,259	583,037	20,638,222
Contract services and operating expenditures	5,298,629	5,397,241	1,864,735	3,532,506
Capital outlay	<u>41,072</u>	<u>48,841</u>	<u>11,442</u>	<u>37,399</u>
Total expenditures	<u>49,595,952</u>	<u>46,685,265</u>	<u>21,833,909</u>	<u>24,851,356</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(21,608,999)</u>	<u>(18,791,769)</u>	<u>1,286,283</u>	<u>20,078,052</u>
Other financing sources (uses):				
Transfers out	<u>(1,470)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	(21,610,469)	(18,791,769)	1,286,283	20,078,052
Fund balance, July 1, 2021	<u>28,984,235</u>	<u>28,984,235</u>	<u>28,984,235</u>	<u>-</u>
Fund balance, June 30, 2022	<u>\$ 7,373,766</u>	<u>\$ 10,192,466</u>	<u>\$ 30,270,518</u>	<u>\$ 20,078,052</u>

See note to required supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL
OTHER POSTEMPLOYMENT BENEFITS (OPEB) LIABILITY
For the Year Ended June 30, 2022

	Last 10 Fiscal Years				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Total OPEB liability					
Service cost	\$ 6,189,624	\$ 6,375,313	\$ 6,566,572	\$ 10,148,926	\$ 10,521,252
Interest	4,359,219	4,573,330	4,776,856	3,021,151	3,210,076
Change of assumptions	-	1,588,048	8,503,065	812,973	(23,632,073)
Difference between actual and expected experience	-	-	(12,611,580)	-	(3,408,344)
Benefit payments	<u>(4,929,936)</u>	<u>(4,644,091)</u>	<u>(4,644,091)</u>	<u>(2,433,054)</u>	<u>(3,326,191)</u>
Net change in total OPEB liability	5,618,907	7,892,600	2,590,822	11,549,996	(16,635,280)
Total OPEB liability, beginning of year	<u>117,364,770</u>	<u>122,983,677</u>	<u>130,876,277</u>	<u>133,467,099</u>	<u>145,017,095</u>
Total OPEB liability, end of year	<u>\$ 122,983,677</u>	<u>\$ 130,876,277</u>	<u>\$ 133,467,099</u>	<u>\$ 145,017,095</u>	<u>\$ 128,381,815</u>
Covered employee payroll	\$ 250,000,000	\$ 282,877,000	\$ 279,600,000	\$ 303,796,000	\$ 271,727,000
Total OPEB liability as a percentage of covered-employee payroll	49.20%	46.27%	47.74%	47.74%	47.25%

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, 2022

	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>	<u>2021</u>	<u>2022</u>
District's proportion of the net pension liability	0.325%	0.320%	0.327%	0.317%	0.349%	0.382%	0.354%	0.323%
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	\$ 342,746,000	\$ 147,036,000
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>	<u>187,308,000</u>	<u>87,484,000</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>	<u>\$ 530,054,000</u>	<u>\$ 234,520,000</u>
District's covered payroll	\$ 144,623,000	\$ 148,755,000	\$ 163,180,000	\$ 179,689,000	\$ 187,383,000	\$ 201,146,000	\$ 190,968,000	\$ 178,356,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	131.20%	145.05%	162.29%	162.98%	171.19%	171.47%	179.48%	82.44%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%	70.04%	69.46%	70.99%	72.56%	71.82%	87.21%

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, 2022

	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>	<u>2021</u>	<u>2022</u>
District's proportion of the net pension liability	0.503%	0.493%	0.474%	0.463%	0.511%	0.536%	0.584%	0.602%
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	\$ 179,220,000	\$ 122,430,000
District's covered payroll	\$ 54,130,000	\$ 59,697,000	\$ 59,198,000	\$ 61,741,000	\$ 50,961,000	\$ 77,230,000	\$ 84,137,000	\$ 88,808,000
District's proportionate share of the net pension liability as a percentage of its covered payroll	109.32%	132.18%	163.49%	187.45%	267.42%	202.39%	213.01%	137.86%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%	73.89%	71.87%	70.85%	70.05%	70.00%	80.97%

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, 2022

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>	<u>2021</u>	<u>2022</u>
Contractually required contribution	\$ 13,209,402	\$ 17,509,201	\$ 22,604,934	\$ 27,039,404	\$ 32,746,531	\$ 35,276,179	\$ 34,065,925	\$ 35,456,891
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>	<u>(34,065,925)</u>	<u>(35,456,891)</u>
Contribution deficiency (excess)	<u>\$ -</u>							
District's covered payroll	\$ 148,755,000	\$ 163,180,000	\$ 179,689,000	\$ 187,383,000	\$ 201,146,000	\$ 190,968,000	\$ 178,356,000	\$ 185,638,000
Contributions as a percentage of covered payroll	8.88%	10.73%	12.58%	14.43%	16.28%	17.10%*	16.15%**	16.92%***

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.
- ** This rate reflects the original employer contribution rate of 19.10 percent under AB 1469, reduced for the 2.95 percentage points to be paid on behalf of employers pursuant to SB90.
- *** This rate reflects the original employer contribution rate of 19.10 percent under AB 1469, reduced for the 2.18 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, 2022

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>	<u>2021</u>	<u>2022</u>
Contractually required contribution	\$ 7,026,907	\$ 7,013,119	\$ 8,820,816	\$ 7,914,234	\$ 13,949,345	\$ 17,031,685	\$ 18,383,274	\$ 20,230,248
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>	<u>(18,383,274)</u>	<u>(20,230,248)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				
District's covered payroll	\$ 59,697,000	\$ 59,198,000	\$ 61,741,000	\$ 50,961,000	\$ 77,230,000	\$ 84,137,000	\$ 88,808,000	\$ 88,303,000
Contributions as a percentage of covered payroll	11.77%	11.85%	14.29%	15.53%	18.06%	19.72%	20.70%	22.91%

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, 2022

NOTE 1 - PURPOSE OF SCHEDULES

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 and Charter School Funds are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

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.

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.

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.

Changes of Benefit Terms: There are no changes in benefit terms reported in the Required Supplementary Information.

Changes of Assumptions: The discount rates used for the total OPEB liability were 3.50, 2.20, 2.16, and 3.54 percent at the June 30, 2019, 2020, 2021 and 2022 measurement dates, respectively.

The discount rates used for the Public Employer's Retirement Fund B (PERF B) was 7.50, 7.65, 7.65, 7.15, 7.15, 7.15, 7.15 , 7.15 percent in the June 30, 2013, 2014, 2015, 2016, 2017, 2018, 2019, and 2020 actuarial reports, respectively.

<u>Assumption</u>	<u>Measurement Period</u>						
	<u>As of June 30 2021</u>	<u>As of June 30, 2020</u>	<u>As of June 30, 2019</u>	<u>As of June 30, 2018</u>	<u>As of June 30, 2017</u>	<u>As of June 30, 2016</u>	<u>As of June 30, 2015</u>
Consumer price inflation	2.75%	2.75%	2.75%	2.75%	2.75%	3.00%	3.00%
Investment rate of return	7.10%	7.10%	7.10%	7.10%	7.10%	7.60%	7.60%
Wage growth	3.50%	3.50%	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, 2022

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Debt Service Fund	Total
ASSETS									
Cash in County Treasury	\$ (26,751)	\$ 666,450	\$ (1,825,079)	\$ 8,239,601	\$ 769,780	\$ 8,487,425	\$ 9,089,645	\$ 2,763,076	\$ 28,164,147
Cash on hand and in banks	1,570,509	2,000	-	328,572	-	-	-	-	1,901,081
Cash in revolving fund	-	520	-	1,560	-	-	-	-	2,080
Cash with Fiscal Agent	-	-	-	-	-	-	-	10,945,634	10,945,634
Receivables	-	162,927	3,580,008	1,457,192	-	-	1,978	-	5,202,105
Due from other funds	-	-	41,163	3,082,161	6,803	500,000	814,990	3,210,000	7,655,117
Stores Inventory	-	-	-	320,152	-	-	-	-	320,152
Total assets	\$ 1,543,758	\$ 831,897	\$ 1,796,092	\$ 13,429,238	\$ 776,583	\$ 8,987,425	\$ 9,906,613	\$ 16,918,710	\$ 54,190,316
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ -	\$ 70,525	\$ 765,268	\$ -	\$ 12,567	\$ 30,839	\$ 531,880	\$ -	\$ 1,411,079
Unearned revenue	-	-	59,914	-	-	-	835,776	-	895,690
Due to other funds	-	125,946	154,304	1,358,786	-	-	2,913,650	-	4,552,686
Total liabilities	-	196,471	979,486	1,358,786	12,567	30,839	4,281,306	-	6,859,455
Fund balances:									
Nonspendable	-	520	-	321,712	-	-	-	-	322,232
Restricted	1,543,758	634,906	816,606	11,748,740	764,016	8,956,586	5,625,307	16,918,710	47,008,629
Total fund balance	1,543,758	635,426	816,606	12,070,452	764,016	8,956,586	5,625,307	16,918,710	47,330,861
Total liabilities and fund balances	\$ 1,543,758	\$ 831,897	\$ 1,796,092	\$ 13,429,238	\$ 776,583	\$ 8,987,425	\$ 9,906,613	\$ 16,918,710	\$ 54,190,316

STOCKTON UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
 ALL NON-MAJOR FUNDS
 For the Year Ended June 30, 2022

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Debt Service Fund	Total
Revenues:									
Federal sources	\$ -	\$ 652,119	\$ 9,016,896	\$ 18,985,025	\$ -	\$ -	\$ -	\$ -	\$ 28,654,040
Other state sources	-	4,295,465	9,130,787	4,232,543	-	-	-	-	17,658,795
Other local sources	728,146	31,733	175,497	744,935	-	5,205,946	273,122	10,294	7,169,673
Total revenues	728,146	4,979,317	18,323,180	23,962,503	-	5,205,946	273,122	10,294	53,482,508
Expenditures:									
Current:									
Certificated salaries	-	2,295,422	6,427,285	-	-	-	-	-	8,722,707
Classified salaries	-	593,240	3,790,868	7,491,283	-	-	332,072	-	12,207,463
Employee benefits	-	1,463,975	5,975,010	4,430,477	-	-	182,831	-	12,052,293
Books and supplies	26,751	111,441	544,004	8,175,767	-	31,918	26,668	-	8,916,549
Contract services and operating expenditures	-	682,458	352,633	200,720	-	81,885	650,737	-	1,968,433
Capital outlay	-	-	202,911	-	-	-	2,090,822	-	2,293,733
Other Outgo	-	35,000	-	-	-	-	-	-	35,000
Debt Service									
Principal retirement	-	-	-	-	-	1,280,000	-	-	1,280,000
Interest	-	-	-	-	-	1,339,000	-	-	1,339,000
Total expenditures	26,751	5,181,536	17,292,711	20,298,247	-	2,732,803	3,283,130	-	48,815,178
Excess (deficiency) of revenues over (under) expenditures	701,395	(202,219)	1,030,469	3,664,256	-	2,473,143	(3,010,008)	10,294	4,667,330
Other financing (uses) sources:									
Transfers in	-	-	-	-	-	-	-	1,070,000	1,070,000
Transfers out	-	(180,347)	(681,942)	(13,082)	-	-	-	-	(875,371)
Total other financing (uses) sources	-	(180,347)	(681,942)	(13,082)	-	-	-	1,070,000	194,629
Net change in fund balances	701,395	(382,566)	348,527	3,651,174	-	2,473,143	(3,010,008)	1,080,294	4,861,959
Fund balance, July 1, 2021	842,363	1,017,992	468,079	8,419,278	764,016	6,483,443	8,635,315	15,838,416	42,468,902
Fund balance, June 30, 2022	\$ 1,543,758	\$ 635,426	\$ 816,606	\$ 12,070,452	\$ 764,016	\$ 8,956,586	\$ 5,625,307	\$ 16,918,710	\$ 47,330,861

STOCKTON UNIFIED SCHOOL DISTRICT
ORGANIZATION
For the Year Ended June 30, 2022

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>
Cecilia Mendez	President	2024
Ray Zulueta	Vice-President	2024
Angelann Flores	Member	2022
Zachary Ignacio Avelar	Member	2022
Scott McBrien	Member	2022
Maria Mendez	Member	2024
Alicia Rico	Member	2024

ADMINISTRATION

Dr. Traci E. Miller
Interim Superintendent

Joann Juarez
Interim Business Official

Wendy DiSimone
Interim Superintendent, Human Resources

Susana Ramirez
Interim Assistant Superintendent, Educational Services

Francine Baird
Assistant Superintendent, Educational Support Services

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2022

	<u>Second Period Report</u>	<u>Annual Report</u>
DISTRICT		
Certificate #:	<u>CEE4668C</u>	<u>924253D9</u>
Elementary:		
Transitional Kindergarten through Third	8,958	9,072
Fourth through Sixth	7,005	7,097
Seventh and Eighth	4,365	4,415
Special Education	<u>141</u>	<u>141</u>
Total Elementary	<u>20,469</u>	<u>20,725</u>
Secondary:		
Ninth through Twelfth	8,404	8,168
Special Education	<u>74</u>	<u>74</u>
Total Secondary	<u>8,478</u>	<u>8,242</u>
	<u><u>28,947</u></u>	<u><u>28,967</u></u>
CHARTER SCHOOL- CLASSROOM BASED		
Certificate #:	<u>3B015584</u>	<u>B4F356BC</u>
<u>Nightingale Elementary Charter School:</u>		
Elementary:		
Transitional Kindergarten through Third	153	157
Fourth through Sixth	139	141
Seventh and Eighth	<u>75</u>	<u>76</u>
Certificate #:	<u>77FF618C</u>	<u>5DCEA138</u>
<u>Pittman Elementary Charter School</u>		
Elementary:		
Transitional Kindergarten through Third	278	279
Fourth through Sixth	225	225
Seventh and Eighth	<u>120</u>	<u>120</u>
Subtotal Classroom Based	<u>990</u>	<u>998</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 For the Year Ended June 30, 2022

	<u>Second Period Report</u>	<u>Annual Report</u>
CHARTER SCHOOL- CLASSROOM BASED (Continued)		
Certificate #:	<u>99BBA422</u>	<u>8BD25D9B</u>
<u>Stockton Health Careers Academy</u>		
Secondary:		
Ninth through Twelfth	<u>388</u>	<u>384</u>
Certificate #:	<u>148CAE95</u>	<u>3DF276D8</u>
<u>Pacific Law Academy</u>		
Secondary:		
Ninth through Twelfth	<u>165</u>	<u>164</u>
Certificate #:	<u>CBFE6552</u>	<u>A98D3C59</u>
<u>Stockton Unified Early College Academy</u>		
Secondary:		
Ninth through Twelfth	<u>419</u>	<u>417</u>
Total Classroom Based	<u><u>1,962</u></u>	<u><u>1,963</u></u>

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL TIME
 For the Year Ended June 30, 2022

<u>Grade Level</u>	<u>Statutory Minutes Requirement</u>	<u>2021-2022 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
DISTRICT				
Kindergarten	36,000	41,400	180	In Compliance
Grade 1	50,400	51,720	180	In Compliance
Grade 2	50,400	51,720	180	In Compliance
Grade 3	50,400	51,720	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	55,270	180	In Compliance
Grade 7	54,000	55,270	180	In Compliance
Grade 8	54,000	55,270	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, 2022

<u>Grade Level</u>	<u>Statutory Minutes Requirement</u>	<u>2021-2022 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
CHARTER SCHOOLS (Continued)				
<u>Stockton Health Careers Academy</u>				
Grade 9	64,800	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, 2022

Assistance Listing Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<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	\$ 7,421,139
84.027A	Special Education: IDEA Mental Health Services, Part B, Sec 611	15321	457,020
84.173	Special Ed: IDEA Preschool Grants, Part B, Sect. 619	13430	114,131
84.173A	Special Ed: Alternate Dispute Resolution, Part B, Sec. 611	13007	16,139
84.173A	Special Ed: IDEA Preschool Staff Development, Part B	13431	1,018
Subtotal Special Education Cluster			<u>8,009,447</u>
Adult Education Programs:			
84.002	Adult Education: Adult Basic Education and Education State Leadership (Section 231)	14508	416,352
84.002A	Adult Education: English Literacy & Civics Education	14109	69,177
84.002	Adult Education: Adult Secondary Education (Sec 231)	13978	166,590
Subtotal Adult Education Programs			<u>652,119</u>
COVID-19: Education Stabilization Fund (ESF) Programs:			
84.425	COVID-19: Elementary and Secondary School Emergency Relief (ESSER I) Fund	15536	6,219,405
84.425	COVID-19: Elementary and Secondary School Relief II (ESSER II) Fund	15547	20,597,024
84.425	COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund	15559	1,086,122
84.425	COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	10155	542,547
84.425	COVID-19: Governor's Emergency Education Relief Fund: Learning Loss Mitigation	10148	1,401,278
84.425	COVID-19: Expanded Learning Opportunities (ELO) Grant: ESSER II State Reserve	15621	126,972
84.425	COVID-19: ELO Grant: ESSER III State Res. Learning Loss	15564	125,000
84.425	COVID-19: American Rescue Plan-Homeless Children and Youth (ARP - Homeless I)	15564	75,129
84.425	COVID-19: American Rescue Plan-Homeless Children and Youth II (ARP HCY II)	15566	147,681
Subtotal COVID-19: ESF Programs			<u>30,321,158</u>
Title I Programs:			
84.010	ESEA: Title I, Part A, Basic Grants Low-Income	14329	15,471,899
84.010	ESEA: School Improvement Funding for LEAs	15438	1,000,293
Subtotal Title I Programs			<u>16,472,192</u>

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2022

Assistance Listing Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
84.060	Indian Education (from Federal Government)	10011	\$ 41,119
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131 (Vocational Education)	14894	455,700
84.181	Special Education: IDEA Early Intervention Grants	24314	67,388
84.126	Department of Rehabilitation: Workability II, Transition Partnership	10006	361,665
84.196	ESEA: Title IX, Part A, McKinney-Vento Homeless Assistance	14332	12,106
84.365	ESEA: Title III, English Learner Student Program	14346	1,135,964
84.367	ESEA: Title II, Part A, Supporting Effective Instruction Local Grants	14341	1,963,247
84.424	ESEA Title IV, Part A, Student Support and Academic Enrichment Grants	15396	<u>156,497</u>
Total U.S. Department of Education			<u>59,648,602</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.600	SJCOE Head Start Cluster	10016	9,096,594
93.575	COVID-19: Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act - CCDF Cluster	15555	<u>315,151</u>
Total U.S. Department of Health and Human Services			<u>9,411,745</u>
<u>U.S. Department of Defense - Passed through California Department of Education</u>			
12.235	Navy Junior ROTC	*	<u>115,418</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs - Child Nutrition Cluster	13396	18,663,548
10.558	Child Nutrition: CACFP Claims- Centers and Family Day Care	13393	<u>313,829</u>
Total U.S. Department of Agriculture			<u>18,977,377</u>
Total Federal Programs			<u>\$ 88,153,142</u>

* Pass-Through identifying number not available.

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, 2022

	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>
June 30, 2022 Unaudited Actual Financial Reporting Ending Fund Balance	\$ 116,344,424	\$ 5,727,087	\$ 13,679,596
To record corrective entry for an accrual of expense paid after year-end which should have been recognized as an during the year ended June 30, 2022.*	<u>(1,169,833)</u>	<u>-</u>	<u>-</u>
To record corrective entries for entries incorrectly posted or posted in duplicate for debt service and the Cash in County Treasury account during the year ended June 30, 2022.*	<u>-</u>	<u>3,229,499</u>	<u>5,052,425</u>
June 30, 2022 Audited Financial Statements Ending Fund Balance	<u>\$ 115,174,591</u>	<u>\$ 8,956,586</u>	<u>\$ 18,732,021</u>

* Refer to Finding 2022-001 for a material weakness regarding internal control over financial reporting.

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Year Ended June 30, 2022
(UNAUDITED)

	(Budget) <u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
<u>General Fund</u>				
Revenues and other financing sources	\$ 864,084,013	\$ 607,503,518	\$ 561,066,393	\$ 533,153,209
Expenditures	852,983,506	548,288,781	533,272,732	505,675,556
Other uses and transfers out	<u>500,000</u>	<u>-</u>	<u>814,265</u>	<u>2,043,838</u>
Total outgo	<u>853,483,506</u>	<u>548,288,781</u>	<u>534,086,997</u>	<u>507,719,394</u>
Change in fund balance	<u>\$ 10,600,507</u>	<u>\$ 59,214,737</u>	<u>\$ 26,979,396</u>	<u>\$ 25,433,815</u>
Ending fund balance	<u>\$ 234,303,110</u>	<u>\$ 223,702,603</u>	<u>\$ 164,487,866</u>	<u>\$ 137,508,470</u>
Available reserves	<u>\$ 10,948,265</u>	<u>\$ 10,948,265</u>	<u>\$ 100,337,704</u>	<u>\$ 677,504</u>
Designated for economic uncertainties	<u>\$ 10,948,265</u>	<u>\$ 10,948,265</u>	<u>\$ 100,337,704</u>	<u>\$ 677,504</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as percentages of total outgo	<u>1.28%</u>	<u>2.00%</u>	<u>18.79%</u>	<u>0.13%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 977,436,095</u>	<u>\$ 998,481,993</u>	<u>\$ 1,184,583,761</u>	<u>\$ 1,167,673,901</u>
Average daily attendance at P-2, excluding Charter School	<u>30,404</u>	<u>28,947</u>	<u>32,923</u>	<u>32,923</u>

The fund balance of the General Fund has increased by \$111,627,948 over the past three years. The fiscal year 2022-2023 budget projects an increase of \$10,600,507. 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, 2022, the District has met this requirement. Based on budgeted activity, the District is not expected to meet this requirement for the year ending June 30, 2023. The District is actively engaged in cost-cutting measures and budget revisions to meet this requirement.

The District has incurred operating surpluses in each of the past three years; and anticipates an operating surplus during the fiscal year ending June 30, 2023.

Total long-term liabilities have increased by \$169,191,908 over the past two years.

Average daily attendance has decreased by 3,976 over the past two years. The District anticipates a decrease of 1,457 ADA for the 2022-2023 fiscal year.

See accompanying notes to supplementary information.

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
For the Year Ended June 30, 2022

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
1318 - Nightingale Charter School	Included in District Financial Statements
1197 - Pittman Charter School	Included in District Financial Statements
1283 - Health Careers Academy	Included in District Financial Statements
1316 - Pacific Law Academy	Included in District Financial Statements
1083 - Stockton Early College Academy	Included in District Financial Statements
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
2063- Aspire Stockton TK-5	Separate Report
2064 - Aspire Stockton 6-12	Separate Report
2077 - Voices-College Bound Language Academy at Stockton	Separate Report
1027 - Dr. Lewis Dolphin Stallworth Sr. Charter Schools	Separate Report
1142 - Stockton Collegiate Int Elem	Separate Report
1143 - Stockton Collegiate Int Secondary	Separate Report
2109 - KIPP Stockton K-12	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, 2022

NOTE 1 - PURPOSE OF SCHEDULES

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.

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.

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.

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.

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.

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, 2022, 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

Opinion on Compliance with State Laws and Regulations

We have audited Stockton Unified School District's (District) compliance with the types of compliance requirements described in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide) applicable to the state laws and regulations listed below for the year ended June 30, 2022.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	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	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course-Based	No, see below
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes

(Continued)

Career Technical Education Incentive Grant	Yes
In Person Instruction Grant	Yes
Attendance, for charter schools	Yes
Mode of Instruction, for charter schools	Yes
Nonclassroom-Based Instruction/Independent Study - charter schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction - charter schools	No, see below
Annual Instructional Minutes-Classroom Based – charter schools	Yes
Charter School Facility Grant Program	Yes

The District did not offer an Early Retirement Incentive Program in the current audit year; therefore, we did not perform any procedures related to this program.

The District did not operate any Juvenile Court Schools in the current audit year; therefore, we did not perform any procedures related to this program.

The District did not report attendance hours for Apprenticeship: Related and Supplemental Instruction in the current audit year; therefore, we did not perform any procedures related to this program.

The District did not operate as a District of Choice in the current audit year; therefore, we did not perform any procedures related to this program.

The District did not report ADA from Independent Study-Course Based in the current audit year; therefore, we did not perform any procedures related to this program.

The District did not offer Nonclassroom-Based Instruction/Independent Study for Charter Schools, or Determination of Funding for Nonclassroom-Based Instruction for Charter Schools Program; therefore, we did not perform any procedures related to these programs in the current year.

In our opinion, except for the noncompliance described in the Basis of 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, 2022.

Basis for Qualified Opinion on Compliance with State Laws and Regulations

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of the *2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Our responsibilities under those standards and the Audit Guide are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance with state laws and regulations. Our audit does not provide a legal determination of the District’s compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on State Laws and Regulations

As described in Findings 2022-004 and 2022-005, 2022-006, 2022-007 in the accompanying Schedule of Audit Findings and Questioned Costs, Stockton Unified School District did not comply with the requirements regarding Independent Study, Classroom Teacher Salaries, Instructional Materials, and Unduplicated Local Control Formula Pupil Counts. 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.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's government programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Audit Guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Audit Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matter

Stockton Unified School District's response to the noncompliance findings identified in our audit are included 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 State 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 *2021-2022 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 15, 2023

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, 2022, 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 15, 2023.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify one deficiency in internal control, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2022-001 that we consider to be a material weakness.

(Continued)

Report on 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*.

Stockton Unified School District's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on Stockton Unified School District's response to the findings identified in our audit and described in the accompanying *schedule of findings and questioned costs*. Stockton Unified School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
Crowe LLP

Sacramento, California
March 15, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE AS REQUIRED BY UNIFORM GUIDANCE

Board of Education
Stockton Unified School District
Stockton, California

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited Stockton Unified School District's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

Qualified Opinion on COVID-19: ESF Programs

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, Stockton Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on *COVID-19: ESF Programs* for the year ended June 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Stockton Unified School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Stockton Unified School District's compliance with the compliance requirements referred to above.

(Continued)

Matter Giving Rise to Qualified Opinion on COVID-19: ESF Programs

As described in the accompanying schedule of findings and questioned costs, Stockton Unified School did not comply with requirements regarding *Assistance Listing No. 84.425 COVID-19: ESF Programs as described in finding number 2022-002 for Activities Allowed and Unallowed, and Equipment*. Compliance with such requirements is necessary, in our opinion, for Stockton Unified School District to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Stockton Unified School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Stockton Unified School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Stockton Unified School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Stockton Unified School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Stockton Unified School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Stockton Unified School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on Stockton Unified School District's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Stockton Unified School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

(Continued)

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022 – 002 and 2022 - 003. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding number 2022-002, to be a material weakness.

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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Stockton Unified School District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Stockton Unified School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Crowe LLP
Crowe LLP

Sacramento, California
March 15, 2023

FINDINGS AND RECOMMENDATIONS

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2022

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? X Yes 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? X Yes 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: Qualified: COVID-19: ESF Programs
 Unmodified: SJCOE Head Start Cluster
 Unmodified: Special Education Cluster

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

Identification of major programs:

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.425	COVID-19: ESF Programs
93.600	SJCOE Head Start Cluster
84.027, 84.027A, 84.173, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$2,644,594

Auditee qualified as low-risk auditee? Yes X No

STATE AWARDS

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

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

SECTION II - FINANCIAL STATEMENT FINDINGS

2022-001 MATERIAL WEAKNESS – INTERNAL CONTROL OVER FINANCIAL REPORTING (30000)

Criteria: Management is responsible for the preparation and fair presentation of the District's financial statements, as well as the design, implementation and maintenance of relevant internal controls to ensure the financial statements are free from material misstatement, whether due to fraud or error.

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

- Material adjusting entries were necessary to correctly report the balance of Cash in County Treasury in the District's Bond Interest and Redemption Fund (Fund 51) as of June 30, 2022. Journal entries posted in error by the District resulted in District records not agreeing to the reconciled balances maintained by the San Joaquin County Treasurer and the San Joaquin County Office of Education. These discrepancies were identified through the audit process.
- Material adjusting entries were necessary to correctly report the balance of Cash in County Treasury in the District's Capital Facilities Fund (Fund 25) as of June 30, 2022. Journal entries posted in error by the District resulted in District records not agreeing to the reconciled balances maintained by the San Joaquin County Treasurer and the San Joaquin County Office of Education. These discrepancies were identified through the audit process.
- Material adjusting entries were necessary to correctly report the accounts payable balance in the Building Fund (Fund 21) as of June 30, 2022. Certain invoices received subsequent to year end for services and goods delivered before the fiscal year end were not appropriately captured in the accounts payable balance. These discrepancies were identified through the audit process.
- Material adjusting entries were necessary to correctly report the accounts receivable and accounts payable balances within the Charter School Fund (Fund 9) as of June 30, 2022. Closing and or clean-up entries were posted to accounts receivable account in error, and review of the entries was either insufficient or incomplete, and entries were not corrected prior to completion of the fiscal close. The corrections offset one another, and thus there was no impact to the fund balance of the Charter School Fund. These discrepancies were identified through the audit process.
- Cash in County bank account reconciliations are not being performed in a timely or complete manner, including segregation of duties and investigation of long outstanding variances. This has led to material misstatements in cash balances presented for audit.

Effect: Adjusting journal entries were necessary to report the financial position of the District in accordance with Generally Accepted Accounting Principles, and in accordance with the California School Accounting Manual.

Cause: The District did not establish and follow adequate internal control procedures to ensure debt transactions were recorded in the proper governmental fund of the District. The District did not establish and follow adequate internal control procedures to ensure that expenditure and accounts payable transactions were recorded in the proper fiscal year. Further, the District's financial closing process was not completed in a timely and effective manner, including reconciliations, to ensure that all cash related transactions were properly reflected in the records of the District, in the correct fiscal period.

Recommendation: The District's management team should implement necessary internal controls to ensure the accuracy of financial reporting. As part of the monthly and annual financial close process, the District's management team should ensure that all general ledger accounts, for all District funds, including all cash accounts, are reconciled and adjusted as necessary to ensure accurate financial reporting for the year.

Views of Responsible Officials and Planned Corrective Action Plan: Management concurs with findings. During FY 21-22, business services was impacted by changes in staff. District management will provide new staff members internal control procedure training. In addition, staff will continue to review and reconcile general ledger accounts for all district funds. This includes review of SJCOE posted transactions and timely cash reconciliations.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2022-002 – MATERIAL WEAKNESS – FEDERAL COMPLIANCE (50000)

Federal Programs: COVID-19 - Elementary and Secondary School Emergency Relief Fund (AL#84.425), COVID-19 - Elementary and Secondary School Relief II Fund (AL#84.425) – collectively referred to herein as “COVID-19 -ESF Programs”.

Criteria: Per the Uniform Guidance Compliance Supplement, established in accordance with 2 CFR Part 200, Subpart F: Sections A. Activities Allowed or Unallowed, and F. Equipment/Real Property Management require that recipients of Federal funds follow applicable specific requirements in connection with the expenditure of the grant fund

Condition: The District entered into an agreement with a third-party vendor for products and services but did not follow applicable written internal control procedures over bidding and board approval or obtain prior approval from the California Department of Education, as required for equipment and real property purchases by the COVID-19 – ESF Programs. The Uniform Guidance compliance also require internal control procedures to be in place and followed in order to demonstrate compliance with the requirements. As a result, the District did not have appropriate internal control procedures in place, nor was the agreement compliant with Uniform Guidance requirements.

Effect: The District did not comply with the necessary requirements for entering into the agreement for the purchase of equipment and real property, therefore resulting in risk of loss of funding for amounts paid under the third-party vendor agreement.

Cause: The District did not follow necessary internal controls for ensuring compliance with the specific program requirements of the Education Stabilization Fund grants it received and expended during the year ended June 30, 2022.

Questioned Cost: \$6,604,857

Recommendation: The District’s management team should implement necessary internal controls to ensure compliance with all Federal program requirements. The internal controls should include (1) a procedure identifying which attributes apply to each Federal program operated by the District, and (2) steps to ensure compliance with each attribute identified as applicable.

Views of Responsible Officials and Planned Corrective Action: Management concurs with findings. District management will continue to provide staff members internal control procedure training specifically in the areas of federal procurement. This will ensure adherence to Federal program requirements. Management staff received procurement training in October 2022. Subsequently, in February and March 2023, management provided procurement trainings to sites and departments.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

2022-003 – DEFICIENCY – FEDERAL COMPLIANCE (50000)

Federal Programs: SJCOC Head Start Cluster (AL#93.600) – collectively referred to herein as “Head Start”.

Criteria: Per the Uniform Guidance Compliance Supplement, established in accordance with 2 CFR Part 200, Subpart F: Sections A. Activities Allowed or Unallowed, and B. Allowable Costs require that costs charged be supported by appropriate documentation, and correctly charged as to account, amount and period.

Condition: The District was unable to provide supporting documentation for payroll for one employee charged to the Head Start program. The Uniform Guidance compliance also require internal control procedures to be in place and followed in order to demonstrate compliance with the requirements. As a result, the District did not have appropriate internal control procedures in place, nor was the expenditure compliant with Uniform Guidance requirements.

Effect: The District did not comply with the necessary requirements for maintaining supporting documentation for payroll expenditures charged to the program, therefore resulting in risk of loss of funding for amounts paid.

Cause: The District did not follow necessary internal controls for ensuring compliance with the specific program requirements of the Head Start grants it received and expended during the year ended June 30, 2022.

Questioned Cost: Known questioned costs are \$12,614 and likely questioned costs are \$15,623, totaling \$28,237.

Recommendation: The District's management team should implement necessary internal controls to ensure compliance with all Federal program requirements. The internal controls should include (1) a procedure identifying which attributes apply to each Federal program operated by the District, and (2) steps to ensure compliance with each attribute identified as applicable.

Views of Responsible Officials and Planned Corrective Action: Management concurs with findings. District management will continue to provide staff members internal control procedure training specifically in the areas of federal procurement. This will ensure adherence to Federal program requirements.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2022-004 – DEFICIENCY – STATE COMPLIANCE – INDEPENDENT STUDY (40000)

Criteria: Pursuant to Education Code Section 51747, no days of attendance are to be reported for dates prior to the signing of the independent study agreement by all parties and the agreement is required to include a beginning and ending date for the independent study agreement. Further, the District is required to maintain work samples from students enrolled in independent study for which attendance is claimed.

Condition: For a sample of 24 students sampled at Adams Elementary, Chavez High School, Hamilton Elementary, Harrison Elementary, Huerta Elementary, El Dorado Elementary, Franklin High School, Jane Fredrick High School, Rio Calaveras Elementary and Stagg High School, attendance was claimed for students for which:

- No independent study agreements were able to be provided for a sample of students.
- A sample of independent study agreements were provided with a beginning date, but no end date for the agreement.
- A sample of independent study agreements were provided that did not contain the signature of the supervising teacher.
- A sample of independent study agreements were provided that did not contain the date of signature by the supervision teacher.
- Work samples were not maintained for a sample of students attending under and independent study agreements.

Effect: The District is out of compliance with independent study attendance requirements.

Cause: The District claimed attendance for students without the proper independent study agreements in place.

Fiscal Impact: The effect of this finding is an overstatement of 11.45 ADA, or approximately \$138,000.

Recommendation: The District should ensure independent Study ADA is not claimed until an independent study contract is completed with all required elements. The agreements and adequate work samples should be maintained in a centralized location that is available for reference and audit.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the auditor's recommendation and will continue to provide training to staff who are responsible for documenting independent study agreements and maintaining student work at school sites.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2022-005 – DEFICIENCY – STATE COMPLIANCE - 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 \$495,901,038, and classroom teacher salaries totaled \$267,160,945. The ratio of classroom teacher salaries to the current expense of education is calculated as 53.87%, which is deficient by 1.13%, or \$5,584,626 from the requirement of 55%.

Effect: The District did not comply with the Classroom Teacher Salaries requirements for the year ended June 30, 2022.

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

Fiscal Impact: Not determined.

Recommendation and Identification as Repeat Finding: This is a repeat finding of Findings 2021-002, 2020-001, and 2019-002 identified during the audits of the years ended June 30, 2021, 2020 and 2019, respectively. The District's management should implement necessary internal controls to ensure that classroom teacher salaries exceed the minimum required percentage of current expense of education in the General Fund.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding and will continue to work to implement necessary internal controls to ensure that classroom teacher salaries exceed the minimum required percentage in future reporting periods.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2022-006 – DEFICIENCY – STATE COMPLIANCE – INSTRUCTIONAL MATERIALS (70000)

Criteria: California Education Code section 60119 requires that each school district governing board hold a public hearing within the eighth week from the first day that pupils attended school for the year prior to making a determination through resolution as to the sufficiency of textbooks or other instructional materials.

Condition: The District did not hold the public hearing required by California Education Code Section 60119(1)(B) regarding the sufficiency of instructional materials, nor was a resolution passed by the governing board regarding the sufficiency of textbooks and other instructional materials for the 2021-22 school year.

Effect: As no public hearing was scheduled or held, nor was a resolution passed, the District is not in compliance with EC section 60119.

Cause: No public hearing was scheduled or held, nor was a resolution passed by the governing board regarding the sufficiency of textbooks or other instructional materials related to the 2021-22 school year.

Fiscal impact: Not determined.

Recommendation: The process for developing the governing board agenda should be modified to ensure the public hearing for discussion of the sufficiency of textbooks or other instructional materials be held within the eighth week of the start of classes and that a subsequent resolution be passed by the governing board to evidence such determination.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the finding and will continue to work to implement necessary internal controls to ensure that the District meets all compliance requirements for Instructional Materials in future periods.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2022

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2022-007 DEFICIENCY – STATE COMPLIANCE – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria: Any student who meets the federal income eligibility criteria or is deemed to be categorically eligible for FRPM under the National School Lunch Program (NSLP) will be counted as FRPM-eligible. Except for directly certified and foster students identified through a statewide match, LEAs must submit the appropriate student program (SPRG) records to CALPADS in order for the students to be counted as FRPM-eligible. Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503, 2574(b)(3)(C), 44238.02(b)(3)(B), and 41020, Education Code.

Condition: In testing performed on a sample basis, a total of three (3) students were improperly identified as the Free and Reduced Priced Meal eligible in the District’s CALPADS reporting for the 2021-22 school year for purposes of Unduplicated Local Control Funding Formula Pupil Counts. The extrapolated impact of this error is a total of 613 students reported as FRPM eligible on the District’s CALPADS reporting for the 2021-22 school year.

<u>Stockton Unified School District</u>					
Unduplicated pupil count based on:	<u>Enrollment</u>	<u>FRPM</u>	<u>ELAS</u>	<u>Both</u>	<u>TOTAL</u>
As certified on CALPADS	34,023	20,849	1,220	6,748	28,817
Audit Adjustments		<u>(613)</u>	-	-	<u>(613)</u>
Adjusted Counts		<u>20,236</u>	<u>1,220</u>	<u>6,748</u>	<u>28,204</u>

Context: We performed the specific audit procedures enumerated in the State of California 2021-22 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting and identified an initial error.

Effect: The District is out of compliance with state requirements for Unduplicated Local Control Funding Formula Pupil Counts.

Cause: The condition is the result of clerical errors in accounting and accumulation of date for unduplicated pupil counts in the CALPADS reporting system.

Fiscal Impact: The District’s Unduplicated Pupil Percentage for the 2021-22 school year was originally reported at 83.46% and the revised School District Unduplicated Pupil Percentage is reported at 82.86%; the fiscal impact is a reduction of LCFF revenues of approximately \$355,360.

Recommendation: The District should ensure that all students are properly reflected in the CALPADS reporting under the appropriate free or reduced-price meal program status.

Views of Responsible Officials and Planned Corrective Action: Management concurs with the recommendation and has implemented processes for ensuring accurate reporting of unduplicated pupil counts are reported in future years.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2022

2021-001 MATERIAL WEAKNESS – INTERNAL CONTROL OVER FINANCIAL REPORTING (30000)

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

- A material adjusting journal entry was necessary to report total state aid revenue from Local Control Funding Formula (LCFF) for the District's Charter School fund. Management did not post entries to reflect recent activity in the account as part of their year-end close process. Management identified and provided the necessary entries after inquiries made through the audit process.
- Material adjusting journal entries were necessary to correctly report the balance of Cash in County Treasury in District's Bond Interest and Redemption Fund (Fund 51) as of June 30, 2021. Journal entries posted in error by the District resulted in District records not agreeing to the reconciled balances maintained by the San Joaquin County Treasurer and San Joaquin County Office of Education. Management identified and provided the necessary entries after inquiries made through the audit process.

A material adjusting journal entry was necessary to correctly report the balance of Cash with Fiscal Agent in District's the Debt Service Fund (Fund 56) as of June 30, 2021. Management did not post entries to reflect recent activity in the account as part of their year-end close process. Management identified and provided the necessary entries after inquiries made through the audit process

Recommendation: We recommend that the District's management team implement necessary internal controls to ensure the accuracy of financial reporting. As part of a monthly and/or annual financial close, the District's management team should ensure that all general ledger accounts, for all District funds, are reconciled and adjusted as necessary to ensure accurate financial reporting for the year

Current Status: Not implemented, see current year Finding 2022-001.

District Explanation if Not Implemented: The District experienced material weaknesses in internal controls over financial reporting.

2021-002 - 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 \$491,776,137, and classroom teacher salaries totaled \$251,756,811. The ratio of classroom teacher salaries to the current expense of education is calculated as 51.19%, which is deficient by 3.81%, or \$18,736,671 from the requirement of 55%.

Recommendation and Identification as Repeat Finding: This is a repeat finding of Findings 2020-001 and 2019-002 identified during the audits of the years ended June 30, 2020 and 2019, respectively. 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 2022-004.

District Explanation if Not Implemented: The District's total current expense of education in the General Fund was again deficient when compared to the required ratio of 55%.

(Continued)

STOCKTON UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2022

2021-003 - DEFICIENCY – SCHOOL ACCOUNTABILITY REPORT CARD (61000)

Condition: At one district site sampled for testing, teacher assignments and/or vacancy attributes as identified on the site's school accountability report card were not consistent with the supporting documentation provided by management.

Recommendation: The District should ensure that all sites' school accountability report cards are completed appropriately and agree to the supporting information for each relevant reporting area required by Ed Code 33126(b)(8).

Current Status: There were no findings related to testing of school accountability report cards in the current year.

District Explanation if Not Implemented: N/A – implemented.