



Financial and Performance Audits
Building Fund (Measures D and E)
June 30, 2019

Modesto City Schools



Financial Audit
Building Fund (Measures D and E)
June 30, 2019
Modesto City Schools

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**FINANCIAL AUDIT
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JUNE 30, 2019**

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board and
Citizens' Oversight Committee
Modesto City Schools
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Modesto City Schools' (the District), Building Fund (Measures D and E), as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States: and Appendix A to the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measures D and E) of the Modesto City Schools at June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measures D and E are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Modesto City Schools as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019, on our consideration of the District's Building Fund (Measures D and E) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's Building Fund (Measures D and E) 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 the District's Building Fund (Measures D and E) internal control over financial reporting and compliance.



Fresno, California
December 16, 2019

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**BALANCE SHEET
JUNE 30, 2019**

ASSETS

Deposits and investments	\$ 22,006,954
Fair market value adjustment	137,907
Total Assets	<u><u>\$ 22,144,861</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 945,404
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Fund Balance:

Restricted for capital projects	21,199,457
Total Liabilities and Fund Balance	<u><u>\$ 22,144,861</u></u>

The accompanying notes are an integral part of these financial statements.

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019**

REVENUES

State sources

CalPERS on behalf	\$	171
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Local sources

Interest income		51,370
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Net increase (decrease) in the fair value of investments		137,907
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Total Revenues		<u>189,448</u>
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EXPENDITURES

Current

Salaries and benefits, non-administrative		20,557
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Supplies

Materials		12,128
-----------	--	--------

Services and other operating expenditures

Rentals, leases, repairs		2,837,813
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Professional/consulting services and operating expenditures		879,702
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Communications		9
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Capital outlay

Land improvements		269,457
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Building and improvements to buildings		1,242,795
--	--	-----------

Equipment		876,030
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Total Expenditures		<u>6,138,491</u>
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DEFICIENCY OF REVENUES OVER EXPENDITURES		<u>(5,949,043)</u>
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Other Financing Sources:

Proceeds from bond issuance		27,000,000
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Transfers in		148,500
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Net Financing Sources		<u>27,148,500</u>
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CHANGE IN FUND BALANCE		<u>21,199,457</u>
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FUND BALANCE - BEGINNING		<u>-</u>
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FUND BALANCE - ENDING	\$	<u><u>21,199,457</u></u>
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The accompanying notes are an integral part of these financial statements.

MODESTO CITY SCHOOLS BUILDING FUND (MEASURES D AND E)

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Modesto City Schools Building Fund (Measures D and E) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Modesto City Schools Funds account for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include the Building Fund of the Modesto City Schools used to account for Measures D and E projects. The Building Fund was established to account for the expenditures of general obligation bonds issued under Measures D and E. These financial statements are not intended to present fairly the financial position and results of operations of the Modesto City Schools in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

MODESTO CITY SCHOOLS

BUILDING FUND (MEASURES D AND E)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Interfund Activity

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

Fund Balance - Building Fund (Measures D and E)

As of June 30, 2019, the fund balance in the Building Fund (Measures D and E) was \$21,199,457.

As of June 30, 2019, the fund balance is classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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/expenses during the reporting period. Actual results could differ from those estimates.

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	<u>\$ 22,144,861</u>
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Deposits and investments as of June 30, 2019, consist of the following:

Cash with fiscal agent	\$ 5,567
Investments	<u>22,139,294</u>
Total Deposits and Investments	<u>\$ 22,144,861</u>

Policies and Practices

The District is authorized under California *Government Code* to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the fairly value provided 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.

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Stanislaus County Pool. The District maintains a Building Fund (Measures D and E) investment of \$22,139,294 with the Stanislaus County Treasury Investment Pool, with a weighted average maturity of 470 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated, nor have they been rated as of June 30, 2019.

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Stanislaus County Treasury Investment Pool Local Agency Investment Funds are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consisted of the following:

Vendor payables	\$ 925,018
Salaries and benefits	20,386
Total Accounts Payable	<u><u>\$ 945,404</u></u>

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2019, consisted of the following:

The Bond Interest and Redemption Non-Major Governmental Fund transferred to the Building Non-Major Governmental Fund for Measure D bond proceeds.	\$ 88,000
The Bond Interest and Redemption Non-Major Governmental Fund transferred to the Building Non-Major Governmental Fund for Measure E bond proceeds.	60,500
Total Transfers In	<u>\$ 148,500</u>

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - CONTINGENCIES

Construction Commitments

As of June 30, 2019, the Building Fund (Measures D and E) had the following commitments with respect to unfinished projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Hanshaw landscape well	\$ 140,465	August 2019
Roberstson Road - repaving west lot	106,543	August 2019
El Vista repaving	27,070	August 2019
Robertson Road - repaving main lot	403,525	September 2019
Shackelford - windows and paint	590,336	August 2019
Shackelford - columns	154,330	September 2019
La Loma JH - gym HVAC upgrade	712,071	August 2019
Roosevelt JH - gym HVAC upgrade	750,637	August 2019
Mark Twain JH - gym HVAC upgrade	724,851	August 2019
Franklin - exterior painting at various locations	84,700	August 2019
Tuolumne - exterior painting at various locations	90,000	August 2019
La Loma - exterior painting at various locations	200,000	August 2019
Roosevelt - exterior painting at various locations	93,754	August 2019
Hanshaw - exterior painting at various locations	93,100	August 2019
Mark Twain - exterior painting at various locations	200,000	August 2019
Beard - camera systems phase 3	161,696	August 2019
Bret Harte - camera systems phase 3	143,296	August 2019
El Vista - camera systems phase 3	125,442	August 2019
Enslin - camera systems phase 3	80,795	August 2019
Fremont - camera systems phase 3	126,129	August 2019
Garrison - camera systems phase 3	100,360	August 2019
Muir - camera systems phase 3	95,781	August 2019
Kirschen - camera systems phase 3	17,502	August 2019
Lakewood - camera systems phase 3	94,603	August 2019
La Loma - camera systems phase 3	129,217	August 2019
Mark Twain - camera systems phase 3	100,243	August 2019
Roosevelt - camera systems phase 3	153,453	August 2019
Rose Ave. - camera systems phase 3	79,039	August 2019
Sonoma - camera systems phase 3	101,722	August 2019
Wilson - camera systems phase 3	79,289	August 2019
Camera systems phase 3 spare parts	3,988	August 2019
Everett, Garrison, Rose Ave and Wilson - single point of entry	59,276	September 2019
Total	<u>\$ 6,023,213</u>	

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Litigation

The District is not currently a party to any legal proceedings related to the Building Fund (Measures D and E) as of June 30, 2019.

INDEPENDENT AUDITOR'S REPORT



**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***

Governing Board and
Citizens' Oversight Committee
Modesto City Schools
Modesto, 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 accompanying financial statements of the Modesto City Schools (the District) Building Fund (Measures D and E), as of and for the year ended June 30, 2019, and the related notes of the financial statements, and have issued our report thereon dated December 16, 2019.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measures D and E are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Modesto City Schools as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Modesto City Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Modesto City Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Modesto City Schools' 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's Building Fund (Measures D and E) 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, significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fresno, California
December 16, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2019**

None reported.



Performance Audit
Building Fund (Measures D and E)
June 30, 2019
Modesto City Schools

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**PERFORMANCE AUDIT
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JUNE 30, 2019**

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and
Citizens' Oversight Committee
Modesto City Schools
Modesto, California

We were engaged to conduct a performance audit of the Modesto City Schools (the District) Building Fund (Measures D and E) for the year ended June 30, 2019.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Building Fund (Measures D and E) funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Fresno, California
December 16, 2019

MODESTO CITY SCHOOLS BUILDING FUND (MEASURES D AND E)

JUNE 30, 2019

AUTHORITY FOR ISSUANCE - 2018 MEASURE D

The general obligation bonds associated with Measure D were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The bonds were authorized to be issued by a resolution adopted by the Board of Education of the District on June 25, 2018.

The District received authorization at an election held on November 6, 2018, to issue \$74,000,000 of general obligation bonds by vote of eligible voters within the District. The bonds are being issued to finance the acquisition, construction, modernization and equipping of certain health and safety improvements at District sites and facilities and to pay the costs of issuing the bonds. To date, the District has sold one issue of these authorized bonds as 2018 - Measure D, Series A in the total principal amount of \$16,000,000.

PURPOSE OF ISSUANCE - 2018 MEASURE D

This Bond Project List, which is an integral part of this proposition, describes the specific projects the District proposes to finance with proceeds of the bonds. All information comprises the list and description of permissible projects and expenses that may be paid from bond proceeds and where such projects may be completed.

Proceeds from the sale of bonds authorized by this measure shall be used only for construction, reconstruction, rehabilitation or replacement of school facilities on the Bond Project List, including the furnishing and equipping of said school facilities, or the acquisition or lease of real property for said school facilities, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

In order to meet all identified facility needs, the District intends to complete projects using a combination funding sources. These sources may include joint-use funds, development impact fees, State funds (if available) and other available funds. The District will pursue state matching funds if and when they become available, and if received, they will be used for and mainly applied to projects on the Bond Project List or other high priority capital outlay expenditures as permitted in *Education Code* Section 17070.63(c). While no specific project is dependent on the receipt of state funding for completion, approval of this measure does not guarantee that all projects on this Bond Project List will be funded beyond the local revenues generated by this measure. The District's proposal for the projects assumes that the receipt of some state matching funds, which could be subject to appropriation by the Legislature or approval of a statewide bond measure.

Specific projects to be funded by the bond measure include, without limitation, the following:

- Improve security at schools by providing classroom intrusion alarms, video surveillance cameras, fencing, gates, access control systems, safety locks on classroom doors and exterior lighting for student safety and other security measures;
- Update aging classrooms and District facilities, or acquire and rehabilitate existing facilities, including acquisition of property to meet current fire and safety codes;
- Install or require fire alarm systems;
- Resurface playgrounds and asphalt play areas
- Install or repair playground equipment and play surfaces;
- Upgrade cafeterias, food service and eating areas on school campuses, including updated kitchen equipment and appliances and installation of shade structures to protect students from sun and rain;
- Remove or replace aging portable buildings and classrooms;

MODESTO CITY SCHOOLS BUILDING FUND (MEASURES D AND E)

JUNE 30, 2019

- Remove aging, outdated and/or deteriorating utility infrastructure, electrical, lighting, plumbing, heating and ventilation systems;
- Repair or replace landscaping including irrigation and drainage systems, water supply lines, turf and vegetation;
- Create ADA-compliant access and safe pedestrian paths of travel at schools;
- Upgrade emergency communications and technology backup systems, signage and fencing;
- Improve student safety and traffic circulation by upgrading or providing additional school drop-off areas and parking lots, including the acquisition of real property where needed;
- Repair, reconfigure, replace and/or resurface sidewalks, parking areas and bus drop-off areas to improve safety and reduce traffic congestion;
- Upgrade restrooms on school campuses including flooring, wall and ceiling systems, fixtures and appliances;
- Install or replace school signage and marquees;
- Repair, rebuild, equip and furnish school sites in the event of unforeseen emergency,
- Perform code and regulatory compliance reviews for all school facilities and remediate non-conformance.

Projects listed may be completed at any and all elementary and middle/junior high school sites and facilities where such projects are authorized to be performed at any and all of the following school sites:

Elementary Schools

Beard Elementary	Lakewood Elementary
Bret Harte Elementary	Marshall Elementary
Burbank Elementary	Martone Elementary
El Vista Elementary	Muir Elementary
Enslin Elementary	Robertson Road Elementary
Everett Elementary	Rose Avenue Elementary
Fairview Elementary	Shackleford Elementary
Franklin Elementary	Sonoma Elementary
Fremont Elementary	Tuolumne Elementary
Garrison Elementary	Wilson Elementary
Kirschen Elementary	Wright Elementary

Middle/Junior High Schools

Evelyn Hanshaw Middle School	Mark Twain Junior High School
La Loma Junior High School	Roosevelt Junior High School

Listed projects, repairs, improvements, rehabilitation projects and upgrades will be completed only as needed, and the listing of projects does not imply a particular prioritization among such improvements. Projects may be done in phases, based on Board of Education priorities. Listed projects may be completed at any and all District schools, sites and education buildings where such project is determined necessary. Decisions regarding the scope, timing, prioritization or other facets of project implementation will be made solely by the Board of Education by subsequent action. Where terms such as "renovate," "upgrade," "repurpose," are used in the Bond Project List, the project's objective. For any listed project involving renovation or modernization of a building construction instead (including any necessary demolition), if the District determines that replacement and new construction is more practical than renovation, considering the building's age, condition, expected remaining life, comparative

MODESTO CITY SCHOOLS BUILDING FUND (MEASURES D AND E)

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cost and other relevant factors. In addition, where feasible, projects may be completed in partnership with other agencies on a joint use basis using bond proceeds. Property, buildings and equipment on the bond project list may be acquired through lease, sale, lease-purchase, lease-leaseback or other project delivery or acquisition methods determined appropriate by the Board

Each project is assumed to include its share of costs of bond issuance, architectural, engineering, legal and planning costs, construction management, bond project staff and consultants, staff development and training expenses associated with learning construction techniques and approaches, new bond-funded equipment and systems and a customary contingency for unforeseen design and construction costs. In addition to the projects listed above, the Bond Project List also includes payment of the costs of preparation of all facilities planning and project implementation studies, feasibility, code compliance and assessment reviews, master planning, environmental studies, permit and inspection fees and temporary housing and relocation and rebuilding costs for dislocated programs or activities caused or necessitated by construction projects on the Bond Project List.

The final cost of each project will be determined as plans are finalized and projects are completed. Based on the final costs of each project, some of the projects described above may be delayed or may not be completed. Necessary site preparation, grading or restoration may occur in connection with acquisition of property, new construction, modernization, renovation or remodeling, or installation or removal of modular classrooms, and including ingress and egress, removing, replacing or installing irrigation, utility lines, trees and landscaping, relocating fire access roads and acquiring any necessary easements, leases, licenses or rights of way to the property.

AUTHORITY FOR ISSUANCE - 2018 MEASURE E

The general obligation bonds associated with Measure E were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The bonds were authorized to be issued by a resolution of the Board of Education of the District on June 25, 2018.

The District received authorization at an election held on November 6, 2018, to issue \$57,000,000 of general obligation bonds by vote of eligible voters within the District. The bonds are being issued to finance the acquisition, construction, modernization and equipping of certain classroom/science lab enhancements at District sites and facilities and to pay the costs of issuing the bonds. To date, the District has sold one issue of these authorized bonds as 2018 - Measure D, Series A in the total principal amount of \$11,000,000.

PURPOSE OF ISSUANCE - 2018 MEASURE E

This Bond Project List, which is an integral part of this proposition, describes the specific projects the District proposes to finance with proceeds of the bonds. All information comprises the list and description of permissible projects and expenses that may be paid from bond proceeds and where such projects may be completed.

Proceeds from the sale of bonds authorized by this measure shall be used only for construction, reconstruction, rehabilitation or replacement of school facilities on the Bond Project List, including the furnishing and equipping of said school facilities, or the acquisition or lease of real property for said school facilities, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

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In order to meet all identified facility needs, the District intends to complete projects using a combination funding sources. These sources may include joint-use funds, development impact fees. State funds (if available) and other available funds. The District will pursue state matching funds if and when they become available, and if received, they will be used for and mainly applied to projects on the Bond Project List or other high priority capital outlay expenditures as permitted in *Education Code* Section 17070.63(c). While no specific project is dependent on the receipt of state funding for completion, approval of this measure does not guarantee that all projects on this Bond Project List will be funded beyond the local revenues generated by this measure. The District's proposal for the projects assumes that the receipt of some state matching funds, which could be subject to appropriation by the Legislature or approval of a statewide bond measure.

Specific projects to be funded by the bond measure include, without limitation, the following:

A. Projects to provide upgraded space for instruction and support 21st Century Learning

- Replace portable classroom buildings with permanent classrooms;
- To accommodate 21st century learning methods, acquire sites and construct, furnish and equip and/or renovate, modernize, upgrade, repair, replace:
 - Classrooms and buildings, including relocatable or modular buildings
 - School libraries
 - Middle/junior high school art and music spaces and venues
 - Athletic fields, hardcourts, and play areas
 - Multipurpose rooms, auditoriums, gymnasiums and locker rooms
 - Food service facilities, community centers, meeting spaces, custodial spaces, workrooms, administrative offices and parent/student support service areas
- Update building exteriors by painting and repairing and/or replacing siding and heating and ventilation systems (HVAC);
- Replace doors and windows;
- Update and/or renovate classrooms by repairing and/or replacing flooring, ceiling tiles and casework, re-painting and updating electrical systems;
- Improve outdoor athletic spaces including fields and hardcourts with updated equipment, fencing, lighting, backstops and playing surfaces;
- Install new or replace deteriorating campus fencing and gates;
- Repair and/or update special education indoor pool at Sonoma Elementary including pool infrastructure, exhaust systems, chemical controls, accessibility equipment and pool equipment.

B. Projects to enable schools to meet current academic standards

- Build new or transform existing spaces to ensure functional science labs to meet District facility standards for elementary and middle/junior high schools, including purchase of safety equipment, appliances and systems, and building science equipment storage areas
- Upgrade/improve energy efficiency and install or replace energy conservation or generation systems (lighting, electrical, solar, geothermal) to reduce utility costs and accommodate District's increased usage of and demand for 21st century technology;
- Improve school site network infrastructure, which may include:
 - Upgrading and improving the routing and network aggregation capabilities for each site in order to support the larger numbers of concurrent network and internet connections;
 - Upgrading and improving the network access layer switching capabilities in order to support the larger numbers of devices on our school networks as well as supporting the higher speed requirements;
 - Upgrading and improving classroom wiring for both wired and wireless data communication;

MODESTO CITY SCHOOLS BUILDING FUND (MEASURES D AND E)

JUNE 30, 2019

- Upgrading and improving fiber network cabling between data wiring closets.
- Acquire and install centrally manageable, networked loudspeaker/bell/clock systems;
- Provide updated classroom audio/visual technology; and
- Furnish classrooms, learning and support spaces with furniture, screens, bulletin boards, and window coverings.

Unless limited by express language in the Bond Project List, projects listed may be completed at any and all elementary and middle/junior high school sites and facilities where such projects are authorized to be performed at any and all of the following school sites:

Elementary Schools

Beard Elementary	Lakewood Elementary
Bret Harte Elementary	Marshall Elementary
Burbank Elementary	Martone Elementary
El Vista Elementary	Muir Elementary
Enslin Elementary	Robertson Road Elementary
Everett Elementary	Rose Avenue Elementary
Fairview Elementary	Shackleford Elementary
Franklin Elementary	Sonoma Elementary
Fremont Elementary	Tuolumne Elementary
Garrison Elementary	Wilson Elementary
Kirschen Elementary	Wright Elementary

Middle/Junior High Schools

Evelyn Hanshaw Middle School	Mark Twain Junior High School
La Loma Junior High School	Roosevelt Junior High School

Listed projects, repairs, improvements, rehabilitation projects and upgrades will be completed only as needed, and the listing of projects does not imply a particular prioritization among such improvements. Projects may be done in phases, based on Board of Education priorities. Listed projects may be completed at any and all District schools, sites and education buildings where such project is determined necessary. Decisions regarding the scope, timing, prioritization or other facets of project implementation will be made solely by the Board of Education by subsequent action. Where terms such as "renovate," "upgrade," "repurpose," are used in the Bond Project List, the project's objective. For any listed project involving renovation or modernization of a building construction instead (including any necessary demolition), if the District determines that replacement and new construction is more practical than renovation, considering the building's age, condition, expected remaining life, comparative cost and other relevant factors. In addition, where feasible, projects may be completed in partnership with other agencies on a joint use basis using bond proceeds. Property, buildings and equipment on the bond project list may be acquired through lease, sale, lease-purchase, lease-leaseback or other project delivery or acquisition methods determined appropriate by the Board

Each project is assumed to include its share of costs of bond issuance, architectural, engineering, legal and planning costs, construction management, bond project staff and consultants, staff development and training expenses associated with learning construction techniques and approaches, new bond-funded equipment and systems and a customary contingency for unforeseen design and construction costs. In addition to the projects

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JUNE 30, 2019

listed above, the Bond Project List also includes payment of the costs of preparation of all facilities planning and project implementation studies, feasibility, code compliance and assessment reviews, master planning, environmental studies, permit and inspection fees and temporary housing and relocation and rebuilding costs for dislocated programs or activities caused or necessitated by construction projects on the Bond Project List.

The final cost of each project will be determined as plans are finalized and projects are completed. Based on the final costs of each project, some of the projects described above may be delayed or may not be completed. Necessary site preparation, grading or restoration may occur in connection with acquisition of property, new construction, modernization, renovation or remodeling, or installation or removal of modular classrooms, and including ingress and egress, removing, replacing or installing irrigation, utility lines, trees and landscaping, relocating fire access roads and acquiring any necessary easements, leases, licenses or rights of way to the property.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *Education Code* Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a Citizens' Oversight Committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

MODESTO CITY SCHOOLS BUILDING FUND (MEASURES D AND E)

JUNE 30, 2019

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measures D and E.
2. Determine whether salary transactions charged to the Building Fund, if any, were in support of Measures D and E and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2018 to June 30, 2019. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, would not have been included within the scope of the audit. Expenditures incurred subsequent to June 30, 2019, were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1, 2018 through June 30, 2019, for the Building Fund (Measures D and E). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measures D and E as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2018 and ending June 30, 2019, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. For **Measure D**, our sample included transactions totaling \$1,874,817. This represents 39.0 percent of the total expenditures of \$4,779,013.

For **Measure E**, our sample included transactions totaling \$494,494. This represents 36.0 percent of the total expenditures of \$1,359,478.

3. We verified that funds from the Building Fund (Measures D and E) were expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Modesto City Schools has properly accounted for expenditures held in the Building Fund (Measures D and E) and that such expenditures were appropriate for the bond.

**MODESTO CITY SCHOOLS
BUILDING FUND (MEASURES D AND E)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019**

None reported.



February 14, 2020

Governing Board and
Citizens' Oversight Committee
Modesto City Schools
Modesto, California

We have audited the financial statements of the Building Fund (Measures D and E) of Modesto City Schools for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated January 31, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Modesto City Schools are described in Note 1 to the financial statements. There were no changes in accounting policies in the current year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the Building fund financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements deemed material, if any. Immaterial misstatements, if any, have been included with your copy of the Management Representation Letter.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 14, 2020.

Management Consultations With Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on the supplementary information which accompany the financial statements. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of Governing Board, the Citizens' Oversight Committee, and management of Modesto City Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California
February 14, 2020