Financial Statements
June 30, 2020

Modesto City Schools

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Independent Auditor's Report

To the Governing Board
Modesto City Schools
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Modesto City Schools (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Modesto City Schools, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, budgetary comparison information on page 80, schedule of changes in the District's net OPEB liability and related ratios on page 81, schedule of the District's proportionate share of the net OPEB liability – MPP program on page 82, schedule of the District's proportionate share of the net pension liability on page 83, and the schedule of District contributions on page 85, be presented to supplement the basic financial statements. Such information, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Modesto City Schools' financial statements. The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards as required by the audit requirements of *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2020 on our consideration of Modesto City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Modesto City Schools' 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 Modesto City Schools' internal control over financial reporting and compliance.

Eide Bailly LLP

Fresno, California
December 22, 2020

Dr. Sara Noguchi
Superintendent

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This section of Modesto City Schools (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020, with comparative information for the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District (including capital assets and deferred outflows), as well as all liabilities (including long-term liabilities and deferred inflows). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Fund Financial Statements include statements for each of the three categories of funds: governmental, proprietary, and fiduciary.

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.
>
> The *Fiduciary Funds* are trust and agency funds. Trust funds focus reporting on net position and changes in net position, and agency funds report only a balance sheet and do not have a measurement focus.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Modesto City Schools.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets, including deferred outflows and liabilities, including deferred inflows of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results.* Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District's activities as follows:

Governmental Activities - The District reports all of its services in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds (the other component of proprietary funds) to report activities that provide services for the District's Self-Insurance Program. The internal service fund is reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

The District is the trustee, or *fiduciary,* for funds held on behalf of others, like our funds for associated student body activities and scholarships. The District's fiduciary activities are reported in the *Fiduciary Funds - Statement of Net Position* and the *Fiduciary Funds - Statement of Changes in Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

- In spring 2019, the Governing Board established policy to implement a 6% reserve for economic uncertainties, double the California Department of Education required reserve level.
- Experienced a third year of decreased enrollment at K-8, a loss of 290 students; and recovered from the prior year decline in enrollment at the 9-12 level, with an increase of 38 students.
- The final year of the current Local Control and Accountability Plan (LCAP) development, adoption and implementation. The LCAP components include increased and improved services to targeted students, parent and public input in development, and alignment with spending, services and goals.
- In response to the Novel Coronavirus Disease 2019 (COVID-19), the Governor approved SB117 on March 17, 2020. This provided average daily attendance and timeline waivers and funding for personal protective equipment, sanitization and job loss protect. A total of $492K allocated to the District.

- In response to the Novel Coronavirus Disease 2019 (COVID-19) the U.S. Congress passed the CARES Act, which was signed into law on March 27, 2020. This relief package provided funding for Learning Loss Mitigation, distance learning, technology, nutrition services, sanitization and personal protective equipment (PPE). A total of $40.7M allocated to the District through four funding sources.
- In response to the Governor's statewide stay-at-home order issued March 19, 2020, all schools were closed. Schools were closed for the remainder of the school year with distance learning supports in operation in April and May. As a result, the Local Control Funding Formula was based on P-1 ADA data.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $11 million for the fiscal year ended June 30, 2020. Of this amount, $45 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2020	2019
Assets		
Current and other assets	$ 257,373,983	$ 234,654,230
Capital assets	363,535,376	370,888,250
Total assets	620,909,359	605,542,480
Deferred outflows of resources	122,992,036	138,922,714
Liabilities		
Current liabilities	45,808,521	32,928,774
Long-term liabilities	629,517,066	629,258,824
Total liabilities	675,325,587	662,187,598
Deferred inflows of resources	57,541,022	56,982,097
Net Position		
Net investment in capital assets	289,631,680	300,486,431
Restricted	44,746,243	37,648,144
Unrestricted	(323,343,137)	(312,839,076)
Total net position	$ 11,034,786	$ 25,295,499

The $11 million in net position represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements –decreased by 3.4 percent ($(323) million compared to $(313) million).

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2020	2019
Revenues		
Program revenues		
Charges for services	$ 7,193,232	$ 5,723,874
Operating grants and contributions	84,326,666	96,960,751
General revenues		
Federal and State aid not restricted	268,562,326	264,256,467
Property taxes	88,331,992	82,079,433
Other general revenues	6,099,247	5,729,478
Total revenues	454,513,463	454,750,003
Expenses		
Instruction-related	300,545,908	300,017,020
Pupil services	54,504,295	54,611,510
Administration	22,630,014	22,783,776
Plant services	55,889,350	50,206,213
Other	35,204,609	32,103,179
Total expenses	468,774,176	459,721,698
Change in net position	$ (14,260,713)	$ (4,971,695)

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was $469 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $88 million because the cost was paid by those who benefited from the programs ($7 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($84 million). The District paid for the remaining "public benefit" portion of our governmental activities with $269 million in Federal and State funds, and with $6 million in other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	$ 300,545,908	$ 300,017,020	$ (256,765,669)	$ (247,572,500)
Pupil services	54,504,295	54,611,510	(31,933,055)	(29,658,403)
Administration	22,630,014	22,783,776	(20,684,305)	(19,985,675)
Plant services	55,889,350	50,206,213	(54,729,164)	(48,000,961)
All other services	35,204,609	32,103,179	(13,142,085)	(11,819,534)
Total	$ 468,774,176	$ 459,721,698	$ (377,254,278)	$ (357,037,073)

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $194 million, which is an increase of $9 million from last year (Table 4).

Table 4

	Balances and Activity			
Governmental Funds	June 30, 2019	Revenues	Expenditures	June 30, 2020
General	$ 100,528,676	$ 408,376,239	$ 395,332,148	$ 113,572,767
Adult Education	250,677	1,044,360	941,296	353,741
Child Development	197,498	12,092,895	11,566,209	724,184
Cafeteria	6,357,400	16,788,491	17,892,808	5,253,083
Deferred Maintenance	1,353,610	4,072,838	2,800,590	2,625,858
Building	21,199,457	471,906	8,531,879	13,139,484
Capital Facilities	952,934	946,424	252,020	1,647,338
Special Reserve Fund for Capital Outlay Projects	32,733,277	7,320,268	9,352,336	30,701,209
Bond Interest and Redemption	14,291,389	15,120,510	11,634,387	17,777,512
Debt Service	6,951,593	1,900,196	860,633	7,991,156
Total	$ 184,816,511	$ 468,134,127	$ 459,164,306	$ 193,786,332

The increase in the General Fund of $13 million was due primarily to increased State revenues and decreased expenditures. The Capital Projects fund types decreased by $9 million primarily due to expenditures for ongoing construction projects. The District's Special Revenue fund types increased by $0.8 million.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. The final amendment to the budget was adopted on June 22, 2020. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the annual report.

The District initially budgeted a decrease in the General Fund of approximately $14 million. However, revenues and other sources were $5 million less than budgeted, and expenditures and other uses were approximately $26 million less than budgeted, resulting in an actual increase of $13 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the District had $364 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This represents a decrease of $7 million over the prior year (Table 5).

Table 5

	Governmental Activities	
	2020	2019
Land and construction in progress	$ 22,578,660	$ 43,229,386
Buildings and improvements	327,604,163	314,098,446
Equipment	13,352,553	13,560,418
Total	$ 363,535,376	$ 370,888,250

More detailed information about the capital assets is presented in Notes to Financial Statements.

Long-Term Liabilities

At the end of this year, the District had $630 million in long-term liabilities outstanding versus $629 million last year, an increase of 0.04 percent (Table 6).

Table 6

	Governmental Activities	
	2020	2019
Long-Term Liabilities		
General obligation bonds	$ 115,738,381	$ 121,601,601
Qualified Zone Academy Bonds	16,420,000	16,420,000
Unamortized premiums	1,977,927	2,046,132
Gregori traffic mitigation	221,885	249,018
Capital leases	10,744,145	10,800,870
Compensation benefits	662,213	662,213
Compensated absences	1,673,665	625,273
Claims liability	9,881,634	7,394,000
Net OPEB liability	72,012,792	67,816,066
Aggregate net pension liability	400,184,424	401,643,651
Total	$ 629,517,066	$ 629,258,824

The District's Elementary and High School general obligation bond ratings are Standard & Poor's A+, Stable Outlook and Fitch Rating AA-, Stable Outlook. The State limits the amount of general obligation debt that districts can issue to 1.25 percent of the assessed value of all taxable property within the District's boundaries.

At year-end, the District has a net pension liability of $400 million versus $402 million last year a decrease of $2 million. In addition, the District reported deferred outflows of resources from pension activities of $117 million and deferred inflows of resources from pension activities of $43 million. The net impact on the District's net position of these pension related items is $(326) million.

We present more detailed information about our long-term liabilities in the Notes to Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2019-2020 ARE NOTED BELOW:

The District completed the following significant projects in 2019-2020:

- Restroom Building - Davis High School/Tully Road Ag Farm
- Restroom Building - Gregori High School Ag Farm
- Agricultural Metal Storage Building - Church Street Ag Farm
- Gymnasium HVAC Upgrade - La Loma, Roosevelt and Mark Twain Jr. High Schools
- Artificial Turf/Stadium Field Replacement - Downey High School
- Landscape Water Well - Hanshaw Jr. High School
- Fire Clean-up and Restoration - Mark Twain Jr. High School
- Repaving - El Vista and Robertson Road Elementary Schools
- Window and Column Replacement - Shackelford Elementary School

The District began or continued with the following significant projects in 2019-2020:

- Five Room Classroom Building Addition (Health Services Academy) - Davis High School
- Beyer JROTC Renovation
- Bret Harte 50 wing Fire Reconstruction
- District-wide LED lighting upgrade
- Transportation Department shop improvements
- Exterior dry rot repair and painting: Beyer, Wilson, Bret Harte, Fairview, Martone, Kirschen, Elliot, District Office
- Play structure replacement: Robertson Road, Fremont, Martone, Burbank
- Single entry point construction: Sonoma, Muir, Fremont, Burbank, Franklin, Mark Twain, Roosevelt, Shackelford, Wright
- Roof replacement/repairs: Beyer, Kirschen, Davis
- Paving/seal coat: Downey, El Vista, Robertson Road, Elliot
- Secure lobby and staircase: District Office
- Field Renovation: Marshall, Rose Ave, Bret Harte, Everett
- Camera system installations: Beard, El Vista, Enslen, Fremont, Garrison, B. Harte, Lakewood, Kirschen, Muir, Rose, Sonoma, Wilson, La Loma, Roosevelt, Mark Twain

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2020-2021 year, the Governing Board and staff continued to improve upon the oversight requirements of the Local Control Funding Formula (LCFF) and maintain a Budget Advisory Committee to continue evaluating the District Budget and, as needed, make recommendations to reduce structural deficits.

The statewide stay-at-home order was lifted on May 12, 2020 with strict guidelines for the reopening of schools. As a result, it was necessary for the District to formulate multiple reopening scenarios. Planning models were developed for full distance learning, staggered student schedules and full onsite return. In addition, the District expanded the Modesto Virtual Academy from grades 9-12 to include all TK-12 grade levels. This offered families the option to enroll students in a distance learning platform that would allow students to remain at home even when onsite classes resumed.

The 2020-2021 year was scheduled to be the first year of the District's new three-year Local Control and Accountability Plan (LCAP). However, Executive Order N-56-20 was established on April 22, 2020, to address the impact of continued school closures in response to the COVID-19 pandemic and the local education agencies' (LEAs') ability to conduct meaningful annual planning and to engage stakeholders in the process. In place of the LCAP, the order required LEAs to adopt a COVID-19 Operations Written Report explaining the changes to program offerings in response to schools closures to address the COVID-19 emergency and major impacts of such closures on students and families. The report was adopted by the Governing Board on June 22, 2020.

The District is planning for and closely monitoring the fiscal impacts resulting from the COVID-19 pandemic and school closures. Federal and State coronavirus relief funding will be utilized to offset the costs of additional learning supports, social/emotional supports, transportation, nutrition services, social distancing, personal protection equipment (PPE), continuity of services and continuing to employ existing staff.

With the economic uncertainty resulting from the COVID-19 pandemic, the District recognizes that LCFF increases in future years are unknown. Additionally, projections continue to demonstrate that funding increases in future years may not be sufficient to cover the costs of pension reform, minimum wage increases, step and column costs and collective bargaining demands; while absorbing the impacts of declining enrollment and maintaining valuable student programs. Along with the Budget Advisory Committee, the Governing Board and staff will continue to monitor these impacts through multi-year projection and trend analysis.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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 questions about this report or need any additional financial information, contact Tim Zearley, Associate Superintendent, Business Services, at Modesto City Schools District, 426 Locust Street, Modesto, California, 95351, 209-574-1594, or e-mail at Zearley.T@monet.k12.ca.us.

	Governmental Activities
Assets	
Deposits and investments	$ 197,301,228
Receivables	57,562,550
Prepaid items	1,260,700
Stores inventories	1,249,505
Capital assets not depreciated	22,578,660
Capital assets, net of accumulated depreciation	340,956,716
Total assets	620,909,359
Deferred Outflows of Resources	
Deferred charge on refunding	66,495
Deferred outflows of resources related to other postemployment benefits (OPEB) liability	5,911,885
Deferred outflows of resources related to pensions	117,013,656
Total deferred outflows of resources	122,992,036
Liabilities	
Accounts payable	38,297,967
Interest payable	577,680
Unearned revenue	6,807,874
Claims liability, dental	125,000
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	16,397,597
Long-term liabilities other than OPEB and pensions due in more than one year	140,922,253
Total other postemployment benefits liabilities	72,012,792
Aggregate net pension liabilities	400,184,424
Total liabilities	675,325,587
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	14,299,159
Deferred inflows of resources related to pensions	43,241,863
Total deferred inflows of resources	57,541,022
Net Position	
Net investment in capital assets	289,631,680
Restricted for	
Debt service	25,768,668
Capital projects	1,647,338
Educational programs	12,711,738
Other restrictions	4,618,499
Unrestricted	(323,343,137)
Total net position	$ 11,034,786

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 244,349,072	$ 1,608,872	$ 33,636,134	$ (209,104,066)
Instruction-related activities				
Supervision of instruction	19,337,006	112,334	6,493,514	(12,731,158)
Instructional library, media, and technology	7,235,261	3	368,773	(6,866,485)
School site administration	29,624,569	224,496	1,336,113	(28,063,960)
Pupil services				
Home-to-school transportation	8,631,171	42,875	2,046,742	(6,541,554)
Food services	17,360,082	952,525	13,076,921	(3,330,636)
All other pupil services	28,513,042	162,483	6,289,694	(22,060,865)
Administration				
Data processing	9,570,315	-	9,173	(9,561,142)
All other administration	13,059,699	64,101	1,872,435	(11,123,163)
Plant services	55,889,350	97,753	1,062,433	(54,729,164)
Facility acquisition and construction	-	-	-	-
Ancillary services	4,252,071	-	173,297	(4,078,774)
Community services	10,424,653	45,853	9,460,590	(918,210)
Enterprise services	2,765,959	3,307,845	51,839	593,725
Interest on long-term liabilities	7,596,396	-	-	(7,596,396)
Other outgo	10,165,530	574,092	8,449,008	(1,142,430)
Total governmental activities	$ 468,774,176	$ 7,193,232	$ 84,326,666	(377,254,278)
General Revenues and Subventions				
Property taxes, levied for general purposes				70,194,784
Property taxes, levied for debt service				14,709,942
Taxes levied for other specific purposes				3,427,266
Federal and State aid not restricted to specific purposes				268,562,326
Interest and investment earnings				3,282,711
Interagency revenues				302,347
Miscellaneous				2,514,189
Subtotal, general revenues				362,993,565
Change in Net Position				(14,260,713)
Net Position - Beginning				25,295,499
Net Position - Ending				$ 11,034,786

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets				
Deposits and investments	$ 97,400,029	$ 30,810,292	$ 50,862,595	$ 179,072,916
Receivables	55,555,136	-	1,947,646	57,502,782
Due from other funds	1,564,996	191,022	146,057	1,902,075
Prepaid expenditures	716,500	-	-	716,500
Stores inventories	615,421	-	634,084	1,249,505
Total assets	$ 155,852,082	$ 31,001,314	$ 53,590,382	$ 240,443,778
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 35,776,231	$ 300,105	$ 1,873,473	$ 37,949,809
Due to other funds	334,808	-	1,564,955	1,899,763
Unearned revenue	6,168,276	-	639,598	6,807,874
Total liabilities	42,279,315	300,105	4,078,026	46,657,446
Fund Balances				
Nonspendable	1,481,921	-	634,584	2,116,505
Restricted	11,633,813	-	46,251,914	57,885,727
Committed	5,017,248	-	2,625,858	7,643,106
Assigned	31,165,788	30,701,209	-	61,866,997
Unassigned	64,273,997	-	-	64,273,997
Total fund balances	113,572,767	30,701,209	49,512,356	193,786,332
Total liabilities and fund balances	$ 155,852,082	$ 31,001,314	$ 53,590,382	$ 240,443,778

Total Fund Balance - Governmental Funds		$ 193,786,332
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 560,203,213	
Accumulated depreciation is	(196,667,837)	
Net capital assets		363,535,376
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(577,680)
An internal service fund is used by management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		8,475,176
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings	66,495	
Other postemployment benefits	5,911,885	
Net pension obligation	117,013,656	
Total deferred outflows of resources to pensions		122,992,036
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits	(14,299,159)	
Net pension obligation	(43,241,863)	
Total deferred inflows of resources to pensions		(57,541,022)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(400,184,424)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(72,012,792)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The long-term claims liabilities are reconciled elsewhere on this schedule. Long-term liabilities at year-end consist of		
General obligation bonds	(76,365,530)	
Capital leases payable	(10,744,145)	
Compensated absences (vacations)	(1,673,665)	
Special termination benefits payable	(884,098)	
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	(57,770,778)	
Total long-term liabilities		(147,438,216)
Total net position - governmental activities		$ 11,034,786

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local Control Funding Formula	$ 328,723,243	$ -	$ 2,000,000	$ 330,723,243
Federal sources	17,275,914	-	20,559,069	37,834,983
Other State sources	49,474,426	-	8,044,763	57,519,189
Other local sources	8,622,721	4,347,282	18,740,404	31,710,407
Total revenues	404,096,304	4,347,282	49,344,236	457,787,822
Expenditures				
Current				
Instruction	221,505,666	-	4,240,688	225,746,354
Instruction-related activities				
Supervision of instruction	16,003,421	-	2,708,759	18,712,180
Instructional library, media, and technology	6,894,516	-	-	6,894,516
School site administration	27,572,580	-	183,706	27,756,286
Pupil services				
Home-to-school transportation	8,671,045	-	-	8,671,045
Food services	49,152	-	16,378,077	16,427,229
All other pupil services	27,404,015	-	67,413	27,471,428
Administration				
Data processing	9,165,548	-	-	9,165,548
All other administration	11,390,167	-	1,387,879	12,778,046
Plant services	36,845,051	228,129	2,990,977	40,064,157
Ancillary services	4,130,380	-	-	4,130,380
Community services	5,855,293	-	4,070,922	9,926,215
Other outgo	10,165,530	-	-	10,165,530
Enterprise services	286,443	-	-	286,443
Facility acquisition and construction	697,889	8,611,880	9,348,194	18,657,963
Debt service				
Principal	2,605,606	-	10,937,133	13,542,739
Interest and other	326,182	291,470	1,585,020	2,202,672
Total expenditures	389,568,484	9,131,479	53,898,768	452,598,731
Excess (Deficiency) of Revenues Over Expenditures	14,527,820	(4,784,197)	(4,554,532)	5,189,091
Other Financing Sources (Uses)				
Transfers in	1,731,054	2,972,986	3,093,384	7,797,424
Proceeds from capital leases	2,548,881	-	-	2,548,881
Transfers out	(5,763,664)	(220,857)	(581,054)	(6,565,575)
Net Financing Sources (Uses)	(1,483,729)	2,752,129	2,512,330	3,780,730
Net Change in Fund Balances	13,044,091	(2,032,068)	(2,042,202)	8,969,821
Fund Balance - Beginning	100,528,676	32,733,277	51,554,558	184,816,511
Fund Balance - Ending	$ 113,572,767	$ 30,701,209	$ 49,512,356	$ 193,786,332

Total Net Change in Fund Balances - Governmental Funds		$ 8,969,821
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeds capital outlays in the period.		
Depreciation expense	$ (12,943,275)	
Capital outlays	5,679,594	
Net expense adjustment		(7,263,681)
The District issued capital appreciation general obligations bonds. The accretion of interest on the general obligation bonds during the current fiscal year was		(5,046,780)
Loss(Gain) on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(89,193)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(2,548,881)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.		(1,048,392)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(19,376,997)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.	83,400
Governmental funds report the effect of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Premium amortization	68,205
Deferred amount on refunding amortization	(9,732)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
General obligation bonds	10,910,000
Capital leases	2,605,606
Gregori traffic mitigation	27,133
Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accretes or accrues, regardless of when it is due.	(378,284)
An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	(1,162,938)
Change in net position of governmental activities	$ (14,260,713)

	Self Insurance Internal Service Fund
Assets	
Current assets	
Deposits and investments	$ 18,228,312
Receivables	59,768
Prepaid expenses	544,200
Total current assets	18,832,280
Liabilities	
Current liabilities	
Accounts payable	348,158
Due to other funds	2,312
Current portion of claims liabilities	125,000
Total current liabilities	475,470
Noncurrent liabilities	
Claims liabilities	9,881,634
Total liabilities	10,357,104
Net Position	
Restricted	8,475,176
Total net position	$ 8,475,176

	Self Insurance Internal Service Fund
Operating Revenues	
Charges for services	$ 11,464,769
Operating Expenses	
Payroll costs	417,787
Professional and contract services	490,525
Supplies and materials	43,408
Rental, leases and repairs	49,162
Other operating cost	10,928,905
Total operating expenses	11,929,787
Operating Loss	(465,018)
Nonoperating Revenues	
Fair market value adjustments	166,347
Interest income	367,582
Total nonoperating revenues	533,929
Income before transfers	68,911
Other financing sources (uses)	
Transfers in	68,151
Transfers out	(1,300,000)
Net other financing sources (uses)	(1,231,849)
Change in Net Position	(1,162,938)
Total Net Position - Beginning	9,638,114
Total Net Position - Ending	$ 8,475,176

	Self Insurance Internal Service Fund
Operating Activities	
Cash receipts from operating funds	$ 11,332,996
Cash payments for claims and insurance	(8,789,134)
Other operating cash payments	(657,896)
Cash payments to employees for services	(417,787)
Other operating cash receipts	237,968
Net Cash From Operating Activities	1,706,147
Capital and Related Financing Activities	
Operating transfers in	68,151
Operating transfers out	(1,300,000)
Net Cash Used for Capital and Related Financing Activities	(1,231,849)
Investing Activities	
Interest earned and changes in the fair value of investments	533,929
Net Change in Cash and Cash Equivalents	1,008,227
Cash and Cash Equivalents, Beginning	17,220,085
Cash and Cash Equivalents, Ending	$ 18,228,312
Reconciliation of Operating Loss to Net Cash From Operating Activities	
Operating loss	$ (465,018)
Changes in assets and liabilities	
Receivables	22,966
Due from other fund	83,229
Claims liabilities	2,295,125
Due to other fund	(230,155)
Net Cash From Operating Activities	$ 1,706,147

	Scholarship Trusts	Agency Funds
Assets		
Deposits and investments	$ 1,375,772	$ 3,242,729
Total assets	1,375,772	$ 3,242,729
Liabilities		
Due to student groups		
Elementary Schools Combined Account	-	596,061
Beyer High School	-	242,199
Davis High School	-	294,103
Downey High School	-	393,239
Enochs High School	-	217,494
Gregori High School	-	221,957
Johansen High School	-	189,898
Modesto High School	-	1,087,778
Total liabilities	-	$ 3,242,729
Net Position		
Held in trusts for scholarships		
Elementary Schools Combined Account	128,720	
Beyer High School	21,744	
Davis High School	186,128	
Downey High School	66,272	
Enochs High School	3,500	
Gregori High School	1,250	
Johansen High School	17,043	
Modesto High School	951,115	
Total net position	$ 1,375,772	

	Scholarship Trusts
Additions	
Private donations and scholarship earnings	
Elementary schools combined account	$ 118,526
Beyer High School	13,000
Davis High School	290,047
Downey High School	3,572
Enochs High School	4,000
Gregori High School	-
Johansen High School	2,345
Modesto High School	40,310
Total additions	471,800
Deductions	
Scholarships awarded and other expenditures	
Elementary schools combined account	51,210
Beyer High School	9,500
Davis High School	286,145
Downey High School	11,529
Enochs High School	2,000
Gregori High School	-
Johansen High School	1,250
Modesto High School	68,552
Total deductions	430,186
Change in Net Position	41,614
Net Position - Beginning	1,334,158
Net Position - Ending	$ 1,375,772

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Modesto City School District and Modesto High School District (the District) were established in 1871, under the laws of the State of California. The Districts operate under the name Modesto City Schools and under a locally-elected seven-member Board form of government and provide educational services to grades K - 12 as mandated by the State and/or Federal agencies. The Modesto City School District operates twenty-two elementary schools and four junior high schools. The Modesto High School District operates seven high schools and an alternative education school.

A reporting entity is comprised of the primary government. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Modesto City Schools, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been consolidated with the General Fund for presentation in these audited financial statements. As a result, the General Fund reflects an increase in fund balance of $5,680,295.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

- **Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

- **Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

- **Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

- **Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

Capital Project Funds The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

- **Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

- **Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Debt Service Funds The Debt Service funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term liabilities.

- **Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

- **Debt Service Fund** The Debt Service Fund is used to account for the accumulation of Federal resources for the payment of interest on qualified school construction bonds.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a Self Insurance Fund that is accounted for in an internal service fund that accounts for workers' compensation, property, liability, and dental coverage.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into two classifications: scholarship trust funds and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust funds are scholarship funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. The major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

- **Governmental Funds** All governmental funds are accounted for using the 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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

- **Proprietary Funds** Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

- **Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when consumed rather than when purchased.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at acquisition value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, five to 50 years; equipment, four to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the Statement of Net Position, except for the net residual amounts due between governmental activities, which are presented as internal balances.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position as long-term liabilities.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accounts Payable and Long-Term Liabilities

Accounts payable and long-term liabilities are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as liabilities of the funds.

Debt Issuance Costs

In the government-wide financial statements, long-term liabilities are reported as liabilities in the applicable governmental activities statement of net position. Debt issuance costs related to prepaid insurance costs are amortized over the life of the debt using the straight-line method, which approximates the effective interest method. In governmental fund financial statements, debt issuance costs related to prepaid insurance costs are recognized in the period the bonds are issued. The face amount of the debt is reported as other financing sources.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items. The deferred charge on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred amounts related to pension and OPEB relate to differences between expected and actual earnings on investments, changes of assumptions, and other pension and OPEB related changes.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items and for OPEB related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, where applicable, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, the District Plan and MPP recognizes benefit payments when due and payable in accordance with the benefit terms. The MPP fiduciary net position reports investments at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. Total OPEB liability attributable to the governmental activities will be paid primarily by the General, Adult Education, Child Development and Cafeteria Funds.

Fund Balances - Governmental Funds

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or Chief Business Official may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

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.

Minimum Fund Balance Policy

The Governing Board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $44,746,243 of restricted net position.

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.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Stanislaus bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

The provisions of this Statement have been implemented as of June 30, 2020.

New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2017, the GASB issued Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In August 2018, the GASB issued Statement 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reporting
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB Statement No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The effects of this change on the District's financial statements have not yet been determined.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental funds	$ 179,072,916
Proprietary funds	18,228,312
Fiduciary funds	4,618,501
Total deposits and investments	$ 201,919,729

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	$ 6,996,033
Cash with fiscal agent	150,500
Cash in revolving	6,198,117
Investments	188,575,079
Total deposits and investments	$ 201,919,729

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 instruments; 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 agreements; 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 statements at amounts based upon the District's pro-rata share of the fair 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.

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California *Government Code* Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the Pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Reported Amount	12 Months or Less	13 - 24 Months	More Than 60 Months
Guarantee Investment Contract (GIC)	$ 7,991,156	$ -	$ -	$ 7,991,156
Local Agency Investment Fund (LAIF)	225,785	225,785	-	-
County Pool	180,358,138	-	180,358,138	-
Total	$ 188,575,079	$ 225,785	$ 180,358,138	$ 7,991,156

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2020, $4,610,832 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Guarantee Investment Contract (GIC) of $7,991,156, the District has a custodial credit risk exposure of $7,991,156 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

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 and 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. The County Treasury Investment Pool has a daily redemption frequency period and a one-day redemption notice period.

The District's fair value measurements are as follows at June 30, 2020:

Investment Type	Reported Amount	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
Guarantee Investment Contract (GIC)	$ 7,991,156	$ 7,991,156	$ -	$ -	$ -
Local Agency Investment Fund (LAIF)	225,785	-	-	-	225,785
County Pool	180,358,138	-	-	-	180,358,138
Total	$ 188,575,079	$ 7,991,156	$ -	$ -	$ 180,583,923

All assets have been valued using a market approach, with quoted market prices.

Note 4 - Receivables

Receivables at June 30, 2020, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Federal Government					
Categorical aid	$ 6,987,385	$ 1,518,535	$ 8,505,920	$ -	$ 8,505,920
State Government					
LCFF apportionment	43,828,649	-	43,828,649	-	43,828,649
State grants and other entitlements	3,587,160	399,458	3,986,618	-	3,986,618
Local sources	1,151,942	29,653	1,181,595	59,768	1,241,363
Total	$ 55,555,136	$ 1,947,646	$ 57,502,782	$ 59,768	$ 57,562,550

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, is as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Governmental Activities				
Capital assets not being depreciated				
Land	$ 19,991,733	$ -	$ -	$ 19,991,733
Construction in progress	23,237,653	4,191,235	(24,841,961)	2,586,927
Total capital assets not being depreciated	43,229,386	4,191,235	(24,841,961)	22,578,660
Capital assets being depreciated				
Land improvements	50,406,670	1,815,549	-	52,222,219
Buildings and improvements	436,640,927	23,026,412	-	459,667,339
Furniture and equipment	24,900,404	1,488,359	(653,768)	25,734,995
Total capital assets being depreciated	511,948,001	26,330,320	(653,768)	537,624,553
Total capital assets	555,177,387	30,521,555	(25,495,729)	560,203,213
Accumulated depreciation				
Land improvements	(17,041,657)	(2,354,933)	-	(19,396,590)
Buildings and improvements	(155,907,494)	(8,981,311)	-	(164,888,805)
Furniture and equipment	(11,339,986)	(1,607,031)	564,575	(12,382,442)
Total accumulated depreciation	(184,289,137)	(12,943,275)	564,575	(196,667,837)
Governmental activities capital assets, net	$ 370,888,250	$ 17,578,280	$ (24,931,154)	$ 363,535,376

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	$ 10,219,879
Instructional library, media, and technology	10,250
School site administration	356,991
Home-to-school transportation	530,516
Food services	759,179
Community Services	247,511
Data processing	49,691
All other administration	191,350
Plant services	577,908
Total depreciation expenses governmental activities	$ 12,943,275

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed resulted from one fund owing another. Interfund receivable and payable balances at June 30, 2020, are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Funds		
General	$ 1,564,996	$ 334,808
Special Reserve Fund for Capital Outlay Projects	191,022	-
Non-Major Governmental Funds		
Adult Education	12,473	-
Child Development	118,700	385,195
Cafeteria	14,009	1,178,885
Deferred Maintenance	-	875
Building	875	-
Proprietary Funds		
Internal Service-Self Insurance	-	2,312
Total	$ 1,902,075	$ 1,902,075

The General Fund owes the Adult Education Non-Major Governmental Fund to close various resources.	$ 12,419
The General Fund owes the Adult Education Non-Major Governmental Fund CSEA release time credits.	54
The General Fund owes the Child Development Non-Major Governmental Fund for payroll charges.	39,746
The General Fund owes the Child Development Non-Major Governmental Fund for closing the CDP.	77,849
The General Fund owes the Child Develpment Non-Major Governmental Fund CSEA release time credits.	1,105
The General Fund owes the Cafeteria Non-Major Governmental Fund for payroll charges.	12,613
The General Fund owes the Special Reserve Fund for Capital Outlay Projects for CCEJA project costs.	148,889
The General Fund owes the Special Reserve Fund for Capital Outlay Projects for equipment replacement fund.	42,133
The Child Development Non-Major Governmental Fund owes the General Fund for CDP indirect costs.	378,492
The Child Development Non-Major Governamental Fund owes the General Fund for utility charges.	5,307
The Child Development Non-Major Governamental Fund owes the Cafeteria Non-Major Governmental Fund for meals.	1,396
The Cafeteria Non-Major Governmental Fund owes the General Fund for indirect costs.	774,668
The Cafeteria Non-Major Governmental Fund owes the General Fund to close NSC RRM transfer.	404,217
The Deferred Maintenance Non-Major Governmental Fund owes the Building Non-Major Governmental Fund for expenditures.	875
The Self Insurance Fund owes the General Fund for payroll corrections.	2,312
Total	$ 1,902,075

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, 2020, consist of the following:

The General Fund transferred to the Non-Major Governmental Adult Education Fund for Adult CTE Programs.	$ 262,419
The General Fund transferred to the Non-Major Governmental Child Development Fund for CDP slot fees for special education students.	60,108
The General Fund transferred to the Non-Major Governmental Deferred Maintenance Fund for routine repair and maintenance.	2,000,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the emergency facility reserve contribution.	422,675
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for high school district facility improvements.	2,000,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the bus replacement contribution.	96,174
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the White Fleet replacement contribution.	275,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the Reprographics equipment replacement contribution.	8,375
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the annual Downey auditorium replacement contribution.	3,257
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the annual Modesto auditorium replacement contribution.	12,353
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the annual Johansen auditorium replacement contribution.	6,263
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for Prop 39 retrofit.	148,889
The General Fund transferred to the Non-Major Governmental Debt Service Fund for the annual sinking fund deposit.	400,000
The General Fund transferred to the Self Insurance Fund for 1:1 student device insurance P&L.	68,151
The Non-Major Governmental Cafeteria Fund transferred to the General Fund for the NSC cost for RRM projects.	404,217
The Non-Major Governmental Capital Facilities Fund transferred to the General Fund for administration fees.	26,837
The Non-Major Governmental Capital Facilities Fund transferred to the Non-Major Governmental Debt Service Fund for the annual sinking fund deposit.	150,000
The Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Governmental Debt Service Fund for the annual sinking fund deposit.	220,857
The Self Insurance Fund transferred to the General Fund the Workers' Compensation JPA refund.	1,300,000
Total	$ 7,865,575

Note 7 - Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) at June 30, 2020, consist of the following:

	General Fund	Self Insurance Internal Service Fund	Total Governmental Activities
General vendors	$ 716,500	$ -	$ 716,500
Workers' compensation and dental insurance	-	544,200	544,200
Total	$ 716,500	$ 544,200	$ 1,260,700

Note 8 - Accounts Payable

Accounts payable at June 30, 2020, consists of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Vendor payables	$ 6,788,975	$ 300,105	$ 1,873,473	$ 8,962,553	$ 348,158	$ 9,310,711
State LCFF apportionment	15,216,051	-	-	15,216,051	-	15,216,051
Salaries and benefits	13,771,205	-	-	13,771,205	-	13,771,205
Total	$ 35,776,231	$ 300,105	$ 1,873,473	$ 37,949,809	$ 348,158	$ 38,297,967

Note 9 - Unearned Revenue

Unearned revenue at June 30, 2020, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 4,349,984	$ 453,452	$ 4,803,436
State categorical aid	1,814,511	183,071	1,997,582
Other local	3,781	3,075	6,856
Total	$ 6,168,276	$ 639,598	$ 6,807,874

Note 10 - Long-Term Liabilities Other than OPEB and Pensions

Summary

The changes in the District's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Long-Term Liabilities					
General obligation bonds	$ 121,601,601	$ 5,046,780	$ (10,910,000)	$ 115,738,381	$ 15,200,000
Qualified School Construction Bonds	16,420,000	-	-	16,420,000	-
Unamortized debt premiums	2,046,132	-	(68,205)	1,977,927	-
Capital leases	10,800,870	2,548,881	(2,605,606)	10,744,145	1,197,597
Gregori traffic mitigation	249,018	-	(27,133)	221,885	-
Compensated absences	625,273	1,048,392	-	1,673,665	-
Claims liability	7,394,000	7,302,138	(4,814,504)	9,881,634	-
Compensation benefits	662,213	-	-	662,213	-
Total	$ 159,799,107	$ 15,946,191	$ (18,425,448)	$ 157,319,850	$ 16,397,597

The general obligation bonds are paid by the Bond Interest and Redemption Fund with local tax revenue. The District's Debt Service Fund are holding funds in escrow for the repayment of the Qualified School Construction Bonds. Payments on the capital leases and Gregori traffic mitigation are made from various District funds. Funding for the claims liability is paid for by the operating funds of the District. Payments on compensated absences and compensation benefits are made from the fund for which the related employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2019	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2020
MCESD 2001, Series A							
5/2/02	5/1/27	4.8-5.93	$ 16,998,337	$ 6,908,870	$ -	$ (860,518)	$ 6,048,352
Accreted interest				11,712,090	985,859	(1,419,482)	11,278,467
MHSD 2001, Series A							
5/2/02	5/1/27	3.79-5.95	64,996,180	28,176,386	-	(3,257,135)	24,919,251
Accreted interest				47,804,255	4,060,921	(5,372,865)	46,492,311
MCESD 2018-D, Series A							
5/29/19	8/1/49	4.0-5.0	16,000,000	16,000,000	-	-	16,000,000
MCESD 2018-E, Series A							
5/29/19	8/1/49	3.0-5.0	11,000,000	11,000,000	-	-	11,000,000
Total				$ 121,601,601	$ 5,046,780	$ (10,910,000)	$ 115,738,381

Debt Service Requirements to Maturity

The capital appreciation bonds mature as follows:

Bonds Maturing Fiscal Year	Initial Bond Value	Accreted Interest	Accreted Obligation	Unaccreted Interest	Maturity Value
2021	$ 4,030,346	$ 7,336,764	$ 11,367,110	$ 52,890	$ 11,420,000
2022	4,010,787	7,361,238	11,372,025	727,975	12,100,000
2023	3,965,596	7,357,959	11,323,555	1,446,445	12,770,000
2024	3,920,217	7,313,348	11,233,565	2,196,435	13,430,000
2025	3,842,608	7,227,013	11,069,621	2,970,379	14,040,000
2026-2027	11,198,050	21,174,455	32,372,505	13,617,495	45,990,000
Total	$ 30,967,604	$ 57,770,777	$ 88,738,381	$ 21,011,619	$ 109,750,000

The current interest bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2021	$ 3,780,000	$ 1,002,000	$ 4,782,000
2022	3,800,000	850,400	4,650,400
2023	-	774,400	774,400
2024	-	774,400	774,400
2025	-	774,400	774,400
2026-2030	1,145,000	3,815,375	4,960,375
2031-2035	3,350,000	3,241,425	6,591,425
2036-2040	4,080,000	2,576,900	6,656,900
2041-2045	4,910,000	1,660,925	6,570,925
2046-2049	5,935,000	612,700	6,547,700
Total	$ 27,000,000	$ 16,082,925	$ 43,082,925

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2020, amounted to $1,673,665.

Capital Leases

The District has entered into capital lease agreements for a lighting retrofit project and for various equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Total
Balance, July 1, 2019	$ 10,800,870
Additions	2,548,881
Payments	(2,605,606)
Balance, July 1, 2020	$ 10,744,145

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2021	$ 1,569,847
2022	1,493,367
2023	1,460,073
2024	776,129
2025	773,859
2026-2030	3,870,847
2031-2034	3,093,004
Total	13,037,126
Less amount representing interest	(2,292,981)
Present value of minimum lease payments	$ 10,744,145

Qualified School Construction Bonds Payable

Qualified School Construction Bonds (QSCB) are authorized by the federal government through the American Recovery and Reinvestment Act (ARRA) of 2009. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce an issuer's cost of borrowing. The ARRA provides for an allocation to each state, along with separate allocations for large school districts.

On June 1, 2010, Modesto City Schools issued Qualified School Construction Bonds in the amount of $16,420,000. The proceeds from the Bonds were used to finance improvements to public high schools within the District. A portion of the proceeds were used for the final phase of construction of Joseph A. Gregori High School. The Qualified School Construction Bonds bear an interest rate of 7.00 percent per annum and mature on June 1, 2027. The District is receiving an IRS subsidy rate of 5.57 percent therefore the effective rate to the District is 1.43 percent. The District is required to make annual payments into a trustee escrow account for the benefit of the owners of the bonds. The payments are calculated to generate sufficient revenues to pay principal of and interest on the bonds when due. As of June 30, 2020, the balance in the escrow account is $7,991,156 and is reported in the District's Debt Service Fund.

Compensation Benefits

The District entered into collective bargaining agreements with the certificated personnel to provide retirees a One-Year Final Compensation Benefit if certain requirements are met. Upon calculation of the benefit liability for each retiree by California State Teachers' Retirement System (CalSTRS), the liability is paid by the District to CalSTRS. Currently, 22 individuals qualify for this benefit. At June 30, 2020, the obligation was $662,213.

Gregori Traffic Mitigation Settlement

The District entered into a settlement agreement with Stanislaus County as payment in full for the resolution of traffic mitigation impacts related to the construction of Gregori High School in Salida. The Resolution Agreement obligates the District to pay the sum of $855,600 over an unspecified period of time. The obligation amount is solely limited to the amount of commercial school impact developer fees (“Commercial Fees”) the Modesto High School District collects and retains pursuant to the authority granted by *Education Code* Section 17620 et seq. and *Government Code* Section 65995 et seq. within its boundaries commencing from the effective date of this Agreement. At the end of each Fiscal Year, the Modesto High School District will account for the amount of Commercial Fees collected for that time period. After deducting a three percent administrative fee from the amount collected and retained, the Modesto High School District will forward said amount to the County by September 15 of the following fiscal year, and deduct that amount from the outstanding balance still due. The County agrees that the County may not accelerate the District’s obligation to pay the Fee Amount. The amount paid during the fiscal year ended June 30, 2020, totaled $27,133. The remaining obligation totals $221,885.

Note 11 - Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2020, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
Retiree Health Plan	$ 70,012,051	$ 5,911,885	$ 14,299,159	$ 3,226,199
Medicare Premium Payment (MPP) Program	2,000,741	-	-	(119,177)
Total	$ 72,012,792	$ 5,911,885	$ 14,299,159	$ 3,107,022

The details of each plan are as follows:

District Plan

Plan Administration

The District’s governing board administers the Postemployment Benefits District Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At July 1, 2018, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	885
Active employees	2,299
Total	3,184

Benefits Provided

The Plan provides upon retirement from the District after attaining age 50 with at least 5 years of employment and enrollment in CalPERS retirement, or upon retirement from the District after attaining age 55 with at least 5 years of employment and enrollment in Cal STRS retirement, the District will pay the following amounts on behalf of every eligible retired employee who elects CalPERS medical benefits:

a) The CalPERS minimum required payment, which is $136 per month in 2019.
b) The CalPERS administrative charge, which is currently 0.23% of premiums.

Under existing employment contracts, the total monthly amount paid by the District to employees shall not exceed these amounts:

CSEA: For employees working 6 hours or more per day: $250 per month H/W only, plus $450 H/W or cash-in-lieu. Less than 6 hours per day, nothing.

MTA: $150 per month H/W only, plus $250 H/W or cash-in-lieu.

Management: $278 per month H/W only, plus $110 H/W or cash-in-lieu.

The aggregate payments for all current and retired employees each year shall not exceed these amounts:

Certificated: $2,316,388
Classified: $842,964
Management: $274,016

The aggregate payments fluctuate based on the number of employees and the contribution amount given to each employee by unit.

Payments are made by the District for as long as the retiree lives and remains covered under CalPERS medical. Payments cease upon the death of the retired employee or termination under CalPERS medical. No benefits are paid for spouses or surviving spouses.

Any medical premiums in excess of the amounts described above must be paid by the retiree. All medical coverage is under CalPERS medical plans. No other benefits of any kind are paid by the District, including dental, vision or life insurance coverage.

Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Modesto Teachers Association (MTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, MTA, CSEA, and the unrepresented groups. For the reporting period of June 30, 2020, the District paid $3,190,422 in benefits which are reflected as deferred outflows of resources for contributions subsequent to the measurement date of June, 30, 2019.

Total OPEB Liability of the District

The District's total OPEB liability of $70,012,051 was measured as of June 30, 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by applying updated procedures to the financial reporting actuarial valuation as of July 1, 2018, and rolling forward the total OPEB liability to June 30, 2019.

Actuarial Assumptions

The total OPEB liability as of June 30, 2019 was determined by applying updated procedures to the financial reporting actuarial valuation as of July 1, 2018 and rolling forward the total OPEB liability to June 30, 2019. The following assumptions were applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	3.50 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	5.00 percent for 2020 and thereafter

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates are taken from the 2014 CalPERS OPEB Assumptions Model (for classified, confidential and classified management employees). For certificated and certificated management employees, mortality is taken from the 2016 valuation of Cal STRS.

The actuarial assumptions used in the July 1, 2018 valuation were selected by the District in accordance with the requirements of GASB 75. These assumptions, based on the actuary's knowledge & experience, are reasonable and appropriate for purposes of determining OPEB costs under GASB 75.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance, June 30, 2018	$ 65,696,148
Service cost	2,014,646
Interest	2,481,374
Changes of assumptions or other inputs	2,975,805
Benefit payments [1]	(3,155,922)
Net change in total OPEB liability	4,315,903
Balance, June 30, 2019	$ 70,012,051

[1] Includes implicit subsidy of $1,372,831.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 3.87 percent to 3.50 percent since the previous 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 percent lower or higher than the current rate:

Discount Rate	Total OPEB Liability
1% decrease (2.5%)	$ 79,168,233
Current discount rate (3.5%)	70,012,051
1% increase (4.5%)	62,404,061

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 percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rate	Total OPEB Liability
1% decrease (4%)	$ 67,264,644
Current healthcare cost trend rate (5%)	70,012,051
1% increase (6%)	73,178,230

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

For the year ended June 30, 2020, the District recognized OPEB expense of $3,226,199. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 3,190,422	$ -
Differences between expected and actual experience	-	6,999,748
Changes of assumptions	2,721,463	7,299,411
Total	$ 5,911,885	$ 14,299,159

The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the subsequent fiscal year.

The deferred outflows and (inflows) of resources related to differences between expected and actual experience in the measurement of the total OPEB liability and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ (1,269,821)
2022	(1,269,821)
2023	(1,269,821)
2024	(1,269,821)
2025	(1,269,821)
Thereafter	(5,228,591)
Total	$ (11,577,696)

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB)Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Net OPEB Liability and OPEB Expense

At June 30, 2020, the District reported a liability of $2,000,741 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The District’s proportion of the net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District’s proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively, was 0.5373 percent and 0.5538 percent, resulting in a net decrease in the proportionate share of 0.0165 percent.

For the year ended June 30, 2020, the District recognized OPEB expense of $(119,177).

Actuarial Methods and Assumptions

The June 30, 2019 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total OPEB liability to June 30, 2019, using the assumptions listed in the following table:

Measurement Date	June 30, 2019	June 30, 2018
Valuation Date	June 30, 2018	June 30, 2017
Experience Study	July 1, 2010 through June 30, 2015	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.50%	3.87%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2018, 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 our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP 2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 380 or an average of 0.23 percent of the potentially eligible population (165,422).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2019, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2019, is 3.50 percent. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.50 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2019, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 0.37 percent from 3.87 percent as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.50%)	$ 2,183,267
Current discount rate (3.50%)	2,000,741
1% increase (4.50%)	1,832,919

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the Medicare cost trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare cost trend rates that is one percent lower or higher than the current rate:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 1,875,293
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	2,000,741
1% increase (4.7% Part A and 5.1% Part B)	2,251,322

Note 12 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 150,000	$ -	$ 500	$ 150,500
Stores inventories	615,421	-	634,084	1,249,505
Prepaid expenditures	716,500	-	-	716,500
Total nonspendable	1,481,921	-	634,584	2,116,505
Restricted				
Legally restricted programs	11,633,813	-	353,741	11,987,554
Food service	-	-	4,618,499	4,618,499
Childcare programs	-	-	724,184	724,184
Capital projects	-	-	14,786,822	14,786,822
Debt services	-	-	25,768,668	25,768,668
Total restricted	11,633,813	-	46,251,914	57,885,727
Committed				
Deferred maintenance program	-	-	2,625,858	2,625,858
Curriculum delivery reserve	5,017,248	-	-	5,017,248
Total committed	5,017,248	-	2,625,858	7,643,106
Assigned				
LCAP supplemental and concentrations	27,657,935	-	-	27,657,935
Carryover obligations	1,337,812	-	-	1,337,812
Retiree medical benefits	660,259	-	-	660,259
County cash FMV adjustment	1,509,782	-	-	1,509,782
Capital projects/ maintenance	-	30,701,209	-	30,701,209
Total assigned	31,165,788	30,701,209	-	61,866,997
Unassigned				
Reserve for economic uncertainties	23,895,729	-	-	23,895,729
Remaining unassigned	40,378,268	-	-	40,378,268
Total unassigned	64,273,997	-	-	64,273,997
Total	$ 113,572,767	$ 30,701,209	$ 49,512,356	$ 193,786,332

Note 13 - Risk Management

Workers' Compensation

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Self-Insurance Fund in Modesto City Schools provides workers' compensation insurance for Modesto City Schools, Stanislaus Union School District and Sylvan Union School District. Under this program, the Self-Insurance Fund provides coverage through a Workers' Compensation Insurance Indemnity Fund. Modesto City Schools receives user charges based upon each respective District's covered payroll. Coverage is provided for workers' compensation with $350,000 per occurrence being self-funded. Costs above the first $350,000 are covered by an excess insurance policy of up to $25,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Property and Liability

The District received property/casualty loss and general liability insurance coverage under the Self-Insurance Fund. A $5,000,000 insurance policy is in effect with a deductible per occurrence of up to $150,000. Costs above the first $5,000,000 are covered by an excess insurance policy of up to $445,000,000 through Schools Excess Liability Fund (SELF). Settled claims have not exceeded this coverage in any of the past three fiscal years.

Employee Medical Benefits

The District has contracted with CalPERS to provide employee health benefits.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2018 to June 30, 2020:

	Dental [1]	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2018	$ 125,000	$ 6,879,000	$ 850,000	$ 7,854,000
Claims and changes in estimates	3,112,862	2,511,348	668,670	6,292,880
Claims payments	(3,112,862)	(2,526,348)	(988,670)	(6,627,880)
Liability Balance, June 30, 2019	125,000	6,864,000	530,000	7,519,000
Claims and changes in estimates	2,746,809	4,835,186	2,466,952	10,048,947
Claims payments	(2,746,809)	(2,277,552)	(2,536,952)	(7,561,313)
Liability Balance, June 30, 2020	$ 125,000	$ 9,421,634	$ 460,000	$ 10,006,634

[1] Current claims liability

Note 14 - Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2020, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 274,295,402	$ 86,740,350	$ 40,203,479	$ 32,427,487
CalPERS	125,889,022	30,273,306	3,038,384	22,153,441
Total	$ 400,184,424	$ 117,013,656	$ 43,241,863	$ 54,580,928

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the District's total contributions were $28,830,433.

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

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	$ 274,295,402
State's proportionate share of the net pension liability	149,646,454
Total	$ 423,941,856

The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.3037 percent and 0.3086 percent, resulting in a net decrease in the proportionate share of 0.0049 percent.

For the year ended June 30, 2020, the District recognized pension expense of $32,427,487. In addition, the District recognized pension expense and revenue of $22,285,584 for support provided by the State. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 28,830,433	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	22,525,094	21,908,209
Differences between projected and actual earnings on pension plan investments	-	10,565,944
Differences between expected and actual experience in the measurement of the total pension liability	692,450	7,729,326
Changes of assumptions	34,692,373	-
Total	$ 86,740,350	$ 40,203,479

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2021	$ (1,065,757)
2022	(8,388,116)
2023	(1,741,503)
2024	629,432
Total	$ (10,565,944)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 6,491,318
2022	6,491,320
2023	4,428,474
2024	11,235,513
2025	936,573
Thereafter	(1,310,816)
Total	$ 28,272,382

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.8%
Fixed income	12%	1.3%
Real estate	13%	3.6%
Private equity	13%	6.3%
Risk mitigating strategies	9%	1.8%
Inflation sensitive	4%	-3.3%
Cash/liquidity	2%	-0.4%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. 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 occurred midyear. Based on these 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 408,448,559
Current discount rate (7.10%)	274,295,402
1% increase (8.10%)	163,056,887

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	19.721%	19.721%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the total District contributions were $13,088,716.

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $125,889,022. The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.4320 percent and 0.4428 percent, resulting in a net decrease in the proportionate share of 0.0108 percent.

For the year ended June 30, 2020, the District recognized pension expense of $22,153,441. At June 30, 2020, 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
Pension contributions subsequent to measurement date	$ 13,088,716	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,047,285	1,870,740
Differences between projected and actual earnings on pension plan investments	-	1,167,644
Differences between expected and actual experience in the measurement of the total pension liability	9,144,597	-
Changes of assumptions	5,992,708	-
Total	$ 30,273,306	$ 3,038,384

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2021	$ 1,152,594
2022	(2,302,270)
2023	(348,881)
2024	330,913
Total	$ (1,167,644)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 9,643,780
2022	4,538,902
2023	1,028,336
2024	102,832
Total	$ 15,313,850

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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 returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool 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 total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 181,460,749
Current discount rate (7.15%)	125,889,022
1% increase (8.15%)	79,788,438

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $15,631,037 (10.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of these contributions totaling $5,243,176 have been recorded in these financial statements.

The total on behalf contributions have been included in the budgeted and actual amounts on the Budgetary Comparison Schedule – General Fund and have also been included in the calculation of the District's available reserves.

Note 15 - Commitments and Contingencies

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2020.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2020.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Construction Commitments

As of June 30, 2020, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Energy retrofit - Johnson Controls - most sites	$ 2,282,280	January 2021
Mark Twain - corridor and site improvements	350,537	September 2020
Beyer - Jr. ROTC renovations	384,000	September 2020
Beyer - exterior painting	179,500	August 2020
Elliott - paving and slurry	419,000	August 2020
El Vista - paving and slurry	110,000	August 2020
Rob Rd. - paving and slurry	115,000	August 2020
Downey - paving and slurry	260,000	August 2020
Total	$ 4,100,317	

Bargaining Units Contributions

The District is committed to providing annual contributions to the Modesto Teachers' Association (MTA), California School Employees Association (CSEA), and MCS Managers, resulting from collective bargaining agreements. The contract agreements establishing these contributions identify that funds are to be used toward reimbursement of medical premium for eligible retirees. Per the negotiated agreements, the contributions are calculated based on contract and subsequent Memorandum of Understanding language.

- MTA - The fixed annual amount of $648,198 is adjusted based on the cost of CalPERS Administration Fees and Share of Premium Fees for MTA retirees.
- CSEA - The fixed annual amount of $139,000 is adjusted based on the cost of CalPERS Administration Fees and Share of Premium Fees for CSEA retirees.
- Managers Group - The annual amount is 0.05 percent of the annual gross management salary (less Superintendent's salary) plus $24,000, which is adjusted based on the cost of CalPERS Administration Fees and Share of Premium Fees for Management retirees.

Note 16 - Participation in Public Entity Risk Pools and Joint Power Authorities

The District is a member of the Schools Infrastructure Financing Agency (SIFA) and the Salida Area Public Facilities Financing Agency (SAPFFA) joint powers authorities (JPAs). The relationships between the District and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

The District has appointed two members to the governing board of SIFA.

The District has appointed one member to the governing board of SAPFFA.

Note 17 - Subsequent Events

World-Wide Coronavirus Pandemic

Subsequent to year-end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the District's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Required Supplementary Information
June 30, 2020

Modesto City Schools

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Local Control Funding Formula	$323,969,832	$332,187,898	$328,723,243	$ (3,464,655)
Federal sources	18,212,488	25,202,575	17,275,914	(7,926,661)
Other State sources	34,865,041	41,789,554	49,474,426	7,684,872
Other local sources	2,661,862	5,917,373	8,622,721	2,705,348
Total revenues [1]	379,709,223	405,097,400	404,096,304	(1,001,096)
Expenditures				
Current				
Certificated salaries	172,205,671	173,602,152	170,133,995	3,468,157
Classified salaries	62,431,966	63,217,787	60,081,260	3,136,527
Employee benefits	84,702,715	83,352,117	89,471,794	(6,119,677)
Books and supplies	16,062,545	27,398,095	19,851,671	7,546,424
Services and operating expenditures	41,343,112	50,828,496	36,842,885	13,985,611
Other outgo	6,185,273	8,339,439	8,790,540	(451,101)
Capital outlay	1,160,000	3,592,112	1,464,551	2,127,561
Debt service				
Debt service - principal	1,960,475	51,141	2,605,606	(2,554,465)
Debt service - interest and other	-	2,596,549	326,182	2,270,367
Total expenditures [1]	386,051,757	412,977,888	389,568,484	23,409,404
Excess (Deficiency) of Revenues Over Expenditures	(6,342,534)	(7,880,488)	14,527,820	22,408,308
Other Financing Sources (Uses)				
Transfers in	813,760	8,244,755	1,731,054	(6,513,701)
Proceeds from capital leases	-	-	2,548,881	2,548,881
Transfers out	(8,317,794)	(8,719,343)	(5,763,664)	2,955,679
Net financing sources (uses)	(7,504,034)	(474,588)	(1,483,729)	(1,009,141)
Net Change in Fund Balances	(13,846,568)	(8,355,076)	13,044,091	21,399,167
Fund Balance - Beginning	100,528,676	100,528,676	100,528,676	-
Fund Balance - Ending	$ 86,682,108	$ 92,173,600	$113,572,767	$ 21,399,167

[1] Due to the consolidation of Fund 17, Special Reserve Non-Capital Outlay Fund for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the original and final General Fund budgets.

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 2,014,646	$ 2,584,557	$ 2,935,337
Interest	2,481,374	2,608,334	2,220,549
Difference between expected and actual experience	-	(8,442,996)	-
Changes of assumptions	2,975,805	(2,293,453)	(7,217,553)
Benefit payments	(3,155,922)	(3,237,556)	(2,750,171)
Net change in total OPEB liability	4,315,903	(8,781,114)	(4,811,838)
Total OPEB Liability - Beginning	65,696,148	74,477,262	79,289,100
Total OPEB Liability - Ending	$ 70,012,051	$ 65,696,148	$ 74,477,262
Covered Payroll	N/A[1]	N/A[1]	N/A[1]
Total OPEB Liability as a Percentage of Covered Payroll	N/A[1]	N/A[1]	N/A[1]
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

[1] The OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

Year ended June 30,	2020	2019	2018
Proportion of the net OPEB liability	0.5373%	0.5538%	0.5220%
Proportionate share of the net OPEB liability	$ 2,000,741	$2,119,918	$2,195,895
Covered payroll	N/A[1]	N/A[1]	N/A[1]
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A[1]	N/A[1]	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	-0.81%	-0.40%	0.01%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

[1] As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note : In the future, as data becomes available, ten years of information will be presented.

	2020	2019	2018
CalSTRS			
Proportion of the net pension liability	0.3037%	0.3086%	0.2883%
Proportionate share of the net pension liability	$ 274,295,402	$283,590,456	$266,623,151
State's proportionate share of the net pension liability	149,646,454	162,368,800	157,732,004
Total	$ 423,941,856	$ 445,959,256	$ 424,355,155
Covered payroll	$ 165,859,496	$ 166,770,859	$ 155,167,170
Proportionate share of the net pension liability as a percentage of its covered payroll	165.38%	170.05%	171.83%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017
CalPERS			
Proportion of the net pension liability	0.4320%	0.4428%	0.4212%
Proportionate share of the net pension liability	$ 125,889,022	$ 118,053,195	$ 100,549,464
Covered payroll	$ 62,903,388	$ 60,374,219	$ 54,541,489
Proportionate share of the net pension liability as a percentage of its covered payroll	200.13%	195.54%	184.35%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

Note : In the future, as data becomes available, ten years of information will be presented.

	2017	2016	2015
CalSTRS			
Proportion of the net pension liability	0.2750%	0.3345%	0.3092%
Proportionate share of the net pension liability	$222,420,923	$225,190,926	$180,662,657
State's proportionate share of the net pension liability	126,620,264	119,101,175	109,091,913
Total	$ 349,041,187	$ 344,292,101	$ 289,754,570
Covered payroll	$ 149,835,890	$ 144,744,707	$138,828,800
Proportionate share of the net pension liability as a percentage of its covered payroll	148.44%	155.58%	130.13%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS			
Proportion of the net pension liability	0.4332%	0.4334%	0.4282%
Proportionate share of the net pension liability	$ 85,562,699	$ 63,877,115	$ 48,616,259
Covered payroll	$ 52,025,559	$ 47,934,627	$45,099,100
Proportionate share of the net pension liability as a percentage of its covered payroll	164.46%	133.26%	107.80%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014

Note : In the future, as data becomes available, ten years of information will be presented.

	2020	2019	2018
CalSTRS			
Contractually required contribution	$ 28,830,433	$27,001,926	$24,065,035
Less contributions in relation to the contractually required contribution	28,830,433	27,001,926	24,065,035
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 168,599,023	$ 165,859,496	$ 166,770,859
Contributions as a percentage of covered payroll	17.10%	16.28%	14.43%
CalPERS			
Contractually required contribution	$ 13,088,716	$11,361,610	$9,376,720
Less contributions in relation to the contractually required contribution	13,088,716	11,361,610	9,376,720
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 66,369,434	$ 62,903,388	$ 60,374,219
Contributions as a percentage of covered payroll	19.721%	18.0620%	15.5310%

Note : In the future, as data becomes available, ten years of information will be presented.

	2017	2016	2015
CalSTRS			
Contractually required contribution	$19,520,030	$16,077,391	$12,853,330
Less contributions in relation to the contractually required contribution	19,520,030	16,077,391	12,853,330
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 155,167,170	$ 149,835,890	$ 144,744,707
Contributions as a percentage of covered payroll	12.58%	10.73%	8.88%
CalPERS			
Contractually required contribution	$7,574,722	$6,163,468	$5,642,385
Less contributions in relation to the contractually required contribution	7,574,722	6,163,468	5,642,385
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 54,541,489	$ 52,025,559	$ 47,934,627
Contributions as a percentage of covered payroll	13.8880%	11.8470%	11.7710%

Note : In the future, as data becomes available, ten years of information will be presented.

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 State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were not changes in the benefit terms since the previous valuation.
- *Changes in Assumptions* – The plan rate of investment return assumption was changed from 3.87 percent to 3.50 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.
- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 3.87 percent to 3.50 percent since the previous valuation.

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

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
- *Changes of Assumptions* – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Supplementary Information
June 30, 2020

Modesto City Schools

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
Special Education Cluster			
Special Education Grants to States - Basic Local Assistance	84.027	13379	$ 6,101,658
Special Education Grants to States - Mental Health	84.027	14468	328,066
Special Education Grants to States - Private School ISP	84.027	10115	6,256
Special Education Grants to States - Alternate Dispute Resolution	84.173	13007	15,865
Special Education Preschool Grants	84.173	13430	82,952
Special Education Preschool Grants - Preschool Staff Development	84.173	13431	1,191
Total Special Education Cluster			6,535,988
Adult Education - Basic Grants to States	84.002	14508	36,628
Adult Education - Basic Grants to States	84.002	13978	7,667
Subtotal			44,295
Title I Grants to Local Educational Agencies	84.010	14329	7,778,746
Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	625,337
ESSA: School Improvement Funding for LEAs	84.010	15438	241,596
English Language Acquisition State Grants -IEP	84.365	15146	40,658
English Language Acquisition State Grants - LEP	84.365	14346	229,421
Student Support and Academic Enrichment Program	84.424	15396	658,192
Twenty-First Century Community Learning Centers	84.287	14349	674,622
Career and Technical Education - Basic Grants to States	84.048	14894	352,494
Special Education-Grants for Infants and Families	84.181	23761	90,674
Total U.S. Department of Education			17,272,023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services Human Services			
Passed Through California Department of Education			
Child Care Manadatory and Matching Funds of the Child Care and Development Fund	93.596	13603	665,379
Head Start	93.600	10016	3,615,454
Head Start - Training Grant	93.600	10016	13,168
Head Start - Early Head Start	93.600	15291	495,762
Subtotal			4,789,763
Passed Through California Department of Social Services:			
RSI Grant	[1]	[1]	48,185
Total U.S. Department of Health and Human Services Human Services			4,837,948
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	8,217,717
National School Lunch Program - Meal Supplements	10.555	13396	474,256
School Breakfast Program - Especially Needy Breakfast	10.553	13526	2,214,986
National School Lunch Program - Summer Food Program	10.559	13004	2,259,806
National School Lunch Program - Commodity Supplemental Food	10.555	13391	1,341,699
Total Child Nutrition Cluster			14,508,464
Child and Adult Care Food Program	10.558	13393	338,556
Child and Adult Care Food Program - Cash in Lieu of Commodities	10.558	13389	17,368
Total U.S. Department of Agriculture			14,864,388
Total Expenditures of Federal Awards			$ 36,974,359

[1] Catalog number and Pass-Through Entity Identifying Number are not available, Grant I.D. Number RSIG18CA

See Note to Supplementary Information

Organization

The Modesto City School District and Modesto High School District were established in 1871. The Modesto City School District covers an area of approximately 30 square miles. The Modesto City School District operates 22 elementary schools and four junior high schools. The Modesto High School District covers an area of approximately 280 square miles. The Modesto High School District operates seven high schools and an alternative education school. There were no boundary changes implemented during the year.

Governing Board

Member	Office	Term Expires
Cindy Marks	President	2022
Dr. Charlene G. West	Vice President	2022
Chad Brown	Member	2022
John Ervin III	Member	2020
Adolfo Lopez	Member	2022
Amy Elliott Neumann	Member	2020
John Walker	Member	2020

Administration

Sara Noguchi	Superintendent
Tim Zearley	Associate Superintendent, Business Services, CBO
Lauren Odell	Associate Superintendent, Curriculum & Instruction, Professional Development
Brad Goudeau	Associate Superintendent, Educational Services
Mike Henderson	Associate Superintendent, Human Resources
Mark Herbst	Associate Superintendent, Student Support Services
Krista Noonan	Chief Communications Officer
Russ Selken	Chief Technology Officer

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,079.39	6,079.39
Fourth through sixth	4,715.43	4,715.43
Seventh and eighth	3,204.56	3,204.56
Ninth through twelfth	14,085.85	14,085.85
Total regular ADA	28,085.23	28,085.23
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	6.31	6.31
Fourth through sixth	10.92	10.92
Seventh and eighth	7.41	7.41
Ninth through twelfth	39.59	39.59
Total special education, nonpublic, nonsectarian schools	64.23	64.23
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.09	0.09
Ninth through twelfth	0.02	0.02
Total extended year special education, nonpublic, nonsectarian schools	0.11	0.11
Total ADA	28,149.57	28,149.57

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	50,464	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,464	180	N/A	Complied
Grade 2		50,464	180	N/A	Complied
Grade 3		50,464	180	N/A	Complied
Grades 4 - 8	54,000				
Grade 4		54,028	180	N/A	Complied
Grade 5		54,028	180	N/A	Complied
Grade 6		54,028	180	N/A	Complied
Grade 7		55,660	180	N/A	Complied
Grade 8		55,660	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,721	180	N/A	Complied
Grade 10		65,721	180	N/A	Complied
Grade 11		65,721	180	N/A	Complied
Grade 12		65,721	180	N/A	Complied

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	General Fund
Fund Balance	
Balance, June 30, 2020, Unaudited Actuals	$ 110,012,206
Decrease in accounts payable	3,560,561
Balance, June 30, 2020, Audited Financial Statements	$ 113,572,767

	(Budget) 2021 [1]	2020	2019	2018
General Fund [3]				
Revenues	$ 426,210,347	$ 403,853,873	$ 407,387,858	$ 369,282,455
Other sources	5,977,899	10,714,618	9,230,991	4,336,300
Total Revenues and Other Sources	432,188,246	414,568,491	416,618,849	373,618,755
Expenditures	435,430,702	389,568,484	398,151,550	372,053,973
Other uses and transfers out	8,370,680	8,693,673	8,638,200	13,391,507
Total Expenditures and Other Uses	443,801,382	398,262,157	406,789,750	385,445,480
Increase/(Decrease) in Fund Balance	(11,613,136)	16,306,334	9,829,099	(11,826,725)
Ending Fund Balance	$ 96,282,124	$ 107,895,260	$ 91,588,926	$ 81,759,827
Available Reserves [2]	$ 39,376,095	$ 64,273,997	$ 63,136,534	$ 56,990,321
Available Reserves as a Percentage of Total Outgo	8.87%	16.14%	15.50%	14.80%
Long-Term Liabilities	Not Available	$ 629,517,066	$ 621,864,824	$ 568,031,796
Average Daily Attendance at P-2	27,963	28,150	28,325	28,525

The General Fund balance has increased by $26,135,433 over the past two years. The fiscal year 2020-2021 budget projects a decrease of $11,613,136 (11 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2020-2021 fiscal year. Total long-term liabilities have increased by $61,610,270 over the past two years, due to the issuance of General Obligation Bonds for facilities improvements and increases in the District's net pension liability and other postemployment benefits obligations.

Average daily attendance has decreased by 375 over the past two years. Additional decline of 187 ADA is anticipated during fiscal year 2020-2021.

[1] Budget 2020 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.
[3] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Capital Outlay as required by GASB Statement No. 54.

Name of Charter School and Charter Number	Included in Audit Report
Aspire Vanguard College Preparatory Academy (Charter No. 1125)	No
Aspire University Charter (Charter No. 1963)	No
Connecting Waters Charter School - Central Valley (Charter No. 1973)	No

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
Assets									
Deposits and investments	$ 269,114	$ 1,265,820	$ 5,159,573	$ 3,107,746	$ 13,637,363	$ 1,654,311	$ 17,777,512	$ 7,991,156	$ 50,862,595
Receivables	108,363	742,030	1,095,126	1,600	-	527	-	-	1,947,646
Due from other funds	12,473	118,700	14,009	-	875	-	-	-	146,057
Stores inventories	-	-	634,084	-	-	-	-	-	634,084
Total assets	$ 389,950	$ 2,126,550	$ 6,902,792	$ 3,109,346	$ 13,638,238	$ 1,654,838	$ 17,777,512	$ 7,991,156	$ 53,590,382
Liabilities and Fund Balances									
Liabilities									
Accounts payable	$ 36,209	$ 430,382	$ 418,015	$ 482,613	$ 498,754	$ 7,500	$ -	$ -	$ 1,873,473
Due to other funds	-	385,195	1,178,885	875	-	-	-	-	1,564,955
Unearned revenue	-	586,789	52,809	-	-	-	-	-	639,598
Total liabilities	36,209	1,402,366	1,649,709	483,488	498,754	7,500	-	-	4,078,026
Fund Balances									
Nonspendable	-	-	634,584	-	-	-	-	-	634,584
Restricted	353,741	724,184	4,618,499	-	13,139,484	1,647,338	17,777,512	7,991,156	46,251,914
Committed	-	-	-	2,625,858	-	-	-	-	2,625,858
Total fund balances	353,741	724,184	5,253,083	2,625,858	13,139,484	1,647,338	17,777,512	7,991,156	49,512,356
Total liabilities and fund balances	$ 389,950	$ 2,126,550	$ 6,902,792	$ 3,109,346	$ 13,638,238	$ 1,654,838	$ 17,777,512	$ 7,991,156	$ 53,590,382

See Note to Supplementary Information

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
Revenues									
Local Control Funding Formula	$ -	$ -	$ -	$ 2,000,000	$ -	$ -	$ -	$ -	$ 2,000,000
Federal sources	44,295	5,145,678	14,508,463	-	-	-	-	860,633	20,559,069
Other State sources	93,496	6,753,959	1,007,580	-	-	-	189,728	-	8,044,763
Other local sources	644,150	133,150	1,272,448	72,838	471,906	946,424	14,930,782	268,706	18,740,404
Total revenues	781,941	12,032,787	16,788,491	2,072,838	471,906	946,424	15,120,510	1,129,339	49,344,236
Expenditures									
Current									
Instruction	647,368	3,593,320	-	-	-	-	-	-	4,240,688
Instruction-related activities									
Supervision of instruction	59,938	2,648,821	-	-	-	-	-	-	2,708,759
School site administration	183,706	-	-	-	-	-	-	-	183,706
Pupil services									
Food services	-	384,604	15,993,473	-	-	-	-	-	16,378,077
All other pupil services	17,139	50,274	-	-	-	-	-	-	67,413
Administration									
All other administration	-	600,321	774,668	-	-	12,890	-	-	1,387,879
Plant services	33,145	217,947	720,450	2,019,240	-	195	-	-	2,990,977
Community services	-	4,070,922	-	-	-	-	-	-	4,070,922
Facility acquisition and construction	-	-	-	781,350	8,531,879	34,965	-	-	9,348,194
Debt service									
Principal	-	-	-	-	-	27,133	10,910,000	-	10,937,133
Interest and other	-	-	-	-	-	-	724,387	860,633	1,585,020
Total expenditures	941,296	11,566,209	17,488,591	2,800,590	8,531,879	75,183	11,634,387	860,633	53,898,768
Excess (Deficiency) of Revenues Over Expenditures	(159,355)	466,578	(700,100)	(727,752)	(8,059,973)	871,241	3,486,123	268,706	(4,554,532)
Other Financing Sources (Uses)									
Transfers in	262,419	60,108	-	2,000,000	-	-	-	770,857	3,093,384
Transfers out	-	-	(404,217)	-	-	(176,837)	-	-	(581,054)
Net Financing Sources (Uses)	262,419	60,108	(404,217)	2,000,000	-	(176,837)	-	770,857	2,512,330
Net Change in Fund Balances	103,064	526,686	(1,104,317)	1,272,248	(8,059,973)	694,404	3,486,123	1,039,563	(2,042,202)
Fund Balance - Beginning	250,677	197,498	6,357,400	1,353,610	21,199,457	952,934	14,291,389	6,951,593	51,554,558
Fund Balance - Ending	$ 353,741	$ 724,184	$ 5,253,083	$ 2,625,858	$ 13,139,484	$ 1,647,338	$ 17,777,512	$ 7,991,156	$ 49,512,356

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Modesto City Schools (the District) under programs of the federal government for the year ended June 30, 2020. The information 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Summary of Significant Accounting Policies
Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate
The District has not elected to use the ten percent de minimis cost rate.

Food Donation
Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. For the fiscal year ending June 30, 2020, the District used food commodities totaling $1,341,699.

SEFA Reconciliation
The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Qualified School Construction Bonds interest payment subsidy received by the District

Description	CFDA Number	Amount
Total Federal Revenues reported on the financial statements		$ 37,834,983
Federal interest subsidy		(860,624)
Total Schedule of Expenditures of Federal Awards		$ 36,974,359

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by Education Code Section 46201.

Due to school closures caused by COVID-19, the District filed the COVID-19 School Closure Certification certifying that schools were closed for 45 days due to the pandemic. As a result, the District received credit for these 45 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District, and displays information for each charter school on whether or not the charter school is included in the District audit.

Non-Major Governmental Funds - Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Independent Auditor's Reports
June 30, 2020

Modesto City Schools

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

To the Governing Board
Modesto City Schools
Modesto, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Modesto City Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Modesto City Schools' basic financial statements and have issued our report thereon dated December 22, 2020.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Modesto City Schools' 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 Modesto City Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Modesto City Schools' 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*.

We noted certain matters that we reported to management of Modesto City Schools in a separate letter dated December 22, 2020.

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.

Eide Bailly LLP

Fresno, California
December 22, 2020

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Governing Board
Modesto City Schools
Modesto, California

Report on Compliance for Each Major Federal Program
We have audited Modesto City Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Modesto City Schools' major federal programs for the year ended June 30, 2020. Modesto City Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Modesto City Schools' compliance.

Opinion on Each Major Federal Program
In our opinion, Modesto City Schools' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

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

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

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

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

Eide Bailly LLP

Fresno, California
December 22, 2020

Independent Auditor's Report on State Compliance

To the Governing Board
Modesto City Schools
Modesto, California

Report on State Compliance

We have audited Modesto City Schools' (the District) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes (see below)
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
Comprehensive School Safety Plan	Yes
District of Choice	No (see below)
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No (see below)
CHARTER SCHOOLS	
Attendance	No (see below)
Mode of Instruction	No (see below)
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Nonclassroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

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

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

We did not perform Apprenticeship: Related and Supplemental Instruction procedures because the program is not offered by the District.

We did not perform District of Choice procedures because the program is not offered by the District.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

Additionally, the Charter Schools are independent of the District; therefore, we did not perform any procedures related to charter schools.

Basis for Qualified Opinion on *Unduplicated Local Control Funding Formula Pupil Counts*
As described in the accompanying *Schedule of State Compliance Findings and Questioned Costs*, Modesto City Schools did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts, as identified in finding 2020-002. Compliance with such requirements is necessary, in our opinion, for Modesto City Schools to comply with the requirements referred to above.

Qualified Opinion on *Unduplicated Local Control Funding Formula Pupil Counts*
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Modesto City Schools complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2020.

Modesto City Schools' response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of State Compliance Findings and Questioned Costs.* Modesto City Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Unmodified Opinion on Each of the Other Programs
In our opinion, Modesto City Schools complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020, except as described in the accompanying *Schedule of State Compliance Findings and Questioned Costs*.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Fresno, California
December 22, 2020

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Special Education Cluster	84.027, 84.173
Head Start	93.600
Head Start - Training and Techinical Assistance	93.600
Early Head Start	93.600

Dollar threshold used to distinguish between type A and type B programs:	$ 1,109,231
Auditee qualified as low-risk auditee?	Yes

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs	Unmodified

Unmodified for all programs except for the following program which was qualified:

Name of Program
Unduplicated Local Control Funding Formula Pupil Counts

The following finding represents a significant deficiency related to the financial statements that is required to be reported in accordance with Government Auditing Standards. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 30000

Internal Control Over Financial Reporting

Criteria

School districts are responsible for maintaining accurate financial statement information including properly recording and reporting all financial transactions and balances.

Condition

During our testing of the District's state general apportionment and related year-end accruals we discovered a miscalculation leading to a material audit adjustment to the unaudited financial statements. It appeared the issue was the amount of local tax revenues used to offset the total Local Control Funding Formula apportionment to determine the state's share of that total.

Effect

The amounts were material and an audit adjustment was necessary which changed the unaudited balances in the General Fund which also impacted the entity wide full accrual financial statements.

Cause

These types of adjustments are extremely rare for the District. A few factors contributed to the oversight. The calculation is involved, and a complicated workbook is utilized to determine the Districts ending balances. Additionally, the COVID pandemic had the business office almost entirely working in a completely or partially remote environment; that, coupled with additional responsibilities and issues requiring attention regarding COVID grants and the distance learning coordination and planning we feel led to the oversight and also caused delays in determining the final Second Period Attendance Report average daily attendance figures used in the calculation.

This finding is not a repeat of or related to a finding in the previous year.

Recommendation

In the future the District should ensure that someone, other than the preparer, that has knowledge of the calculation, reviews the final workbook prior to the related accruals being posted to balance the ending state's share of general apportionment funding. The amounts are significant and small errors can lead to material misstatements.

Corrective Action Plan

The District has recently hired a Director of Internal Audits. The hiring of that position will provide an additional level of review of the local control funding formula calculation in the future and the posting of accruals prior to closing. Additionally, the District will work closely with the County Office of Education to ensure that local tax revenue is accurately recorded with the Department of Education.

None reported.

The following finding represents an instance of noncompliance and questioned costs relating to compliance with state laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2020-002 40000

MODESTO CITY HIGH SCHOOL DISTRICT– GREGORI HIGH SCHOOL

Unduplicated Local Control Funding Formula Pupil Count

Criteria

With the Local Control Funding Formula, school districts receive supplemental funding known as the Supplement Grant and Concentration Grant. The amount of funding received is generated by the number of students who are either English learners (EL) or participants in the Free/Reduced Meal Program in accordance with Education Code Sections 2574(b)(3)(C), 42238.02(b)(3)(b), and 41020.

Condition

During the audit of the unduplicated local control funding formula pupil count, numerous pupils were incorrectly classified as free or reduced on the CalPADS report with either no current application available for review or the application stated the student was denied for the free/reduced classification.

Effect

Twenty-one pupils were initially selected as a sample for Gregori High School (non-CEP school site). During our audit, we determined that five students were classified as either free or reduced but based in the information provided (no lunch application or based on income student would have been denied) they should have been classified as paid. Auditor tested an additional non-CEP high school (Beyer High School), no exceptions were noted at that site. In comparing the CalPADS report to the site's student data base report, the auditor determined that 128 paid students were classified as free or reduced.

The below table summarizes the effect of students who were incorrectly reported.

Modesto City High School District

Certified total enrollment: 46,247
Certified total unduplicated pupil count: 31,147
Total enrollment adjustment: 0
Unduplicated pupil count adjustment based on eligibility for FRPM: 128
Adjusted total enrollment 46,247
Adjusted total unduplicated pupil count 31,019

Cause

The students begin the year with their prior year classification. It appears that once Nutrition Services received or didn't receive (after the grace period) current information for the students and their status was changed in their meal system (Mosaic) the updated information was not communicated to the personnel complying the unduplicated LCFF pupil count reported on the CalPads report.

This finding is not a repeat of or related to a finding in the previous year.

Questioned Cost

The above mention net effect has a questioned cost of $(272,680) for Modesto City High School District. The estimated questioned cost was calculated using the California Department of Education provided "Audit Finding Calculator for Fiscal year 2019-2020 and Each Year Thereafter."

Recommendation

The District should coordinate meetings with the departments providing information for and those preparing the CalPads report to ensure that accurate data is reported.

Corrective Action Plan

Nutrition Services staff will continue to key the data from the applications into Mosaic. This information would then be exported to Powerschool. Powerschool will be the source for the data and there will be a custom field in Powerschool to track the base year. The LCFF application will be in our on-line New Student Registration portal. Information Systems (IT) has configured the system so when a student moves an automated message is sent to Nutrition Services staff that the student will need to submit a new application. IT will update the import data prior to certifying the CalPads.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

To the Governing Board
Modesto City Schools
Modesto, California

We have audited the financial statements of Modesto City Schools (the District) as of and for the year ended June 30, 2020, and have issued our report thereon dated December 22, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our engagement letter dated May 17, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the District complied with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Our responsibility, as prescribed by professional standards as it relates to the audit of the District's major federal program compliance, is to express an opinion on the compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. An audit of major program compliance includes consideration of internal control over compliance with the types of compliance requirements referred to above as a basis for designing 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 internal control over compliance. Accordingly, as a part of our major program compliance audit, we considered internal control over compliance for these purposes and not to provide any assurance on the effectiveness of the District's internal control over compliance.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated January December 22, 2020. We have also provided our comments regarding compliance with the types of compliance requirements referred to above and internal controls over compliance during our audit in our Independent Auditor's Report on Compliance with Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance dated December 22, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the the year ended June 30, 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

> Governmental Accounting Standards Board (GASB) requires the District to calculate, recognize, and report the costs and obligations associated with pensions in their financial statements. These amounts were all determined based on the District's proportionate share of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) estimated net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, which utilized projections of future contributions and future earnings, actuarial assumptions such as inflation, salary increases, mortality rates, and investment rate of return and discount rates in the determination of the final balances reported in the CalSTRS and CalPERS audited financial statements. The District's proportionate share was determined by calculating the District's share of contributions to the pension plan relative to the contributions of all participating entities in the plan.
>
> Management's estimate of the Total OPEB liability, related deferred outflows of resources, related deferred inflows of resources and OPEB expense are based on a calculation of actuarially determined contributions for health insurance benefits.
>
> Management's estimate of worker's compensation, property, liability and dental coverage Incurred But Not Reported (IBNR) liabilities are based on actuarial studies that determine future claims payment obligations.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the District's financial statements relate to the Other Postemployment Benefits (OPEB) Liability and the District's proportionate share of the aggregate net pension liabilities relating to STRS and PERS.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole:

a. Aggregate Remaining Funds
    - Understatement of Cash in County Treasury (FMV): $63,260
    - Net Understatement of Fund Balance: $63,260

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated December 22, 2020.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Noncompliance with Laws and Regulations

We have not identified any matters involving noncompliance with laws and regulations that came to our attention during the course of the audit.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the District's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have applied certain limited procedures to the General Fund-Budgetary Comparison Schedule, Schedule of Changes in the District's Net OPEB Liability and Related Ratios, Schedule of the District's Proprtionate Share of the Net OPEB

Liability – MPP Program, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of District Contributions, and Note to Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on Schedule of Expenditures of Federal Awards, Local Education Agency Organization Structure, Schedule of Average Daily Attendance, Schedule of Instructional Time, Reconciliation of Annual Financial and Budget Report With Audited Financial Statements, Schedule of Financial Trends and Analysis, Combining Statements - Non-Major Governmental Funds and Note to Supplementary Information, which accompany the financial statements but are not RSI. 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.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Governing Board and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fresno, California

Management
Modesto City Schools
Modesto, California

In planning and performing our audit of the financial statements of Modesto City Schools (the District) for the year ended June 30, 2020, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 22, 2020, on the government-wide financial statements of the District.

Downey High School – Associated Student Body (ASB)

Sub-Receipt Timely Deposit

Observation

During our audit of cash receipts, we found that some deposits are not made timely to the site ASB bookkeeper. We noted multiple instances where money was collected by the teacher/advisor and deposited to the site ASB bookkeeper up to one month after the collection date. We also noted multiple instances where the sub-receipt or other supporting documentation was not dated so we could not determine when the monies were collected by the advisor/teacher. This can result in large cash balances being maintained in an unsecured area where there is a greater chance of theft or the funds being lost or misplaced.

Recommendation

All money collected by teachers and advisors should be brought to the front office to be stored in the safe as soon as is practical, preferably on a daily or weekly basis.

Revenue Potentials

Observation

We found that revenue potential forms are on file, but with only the estimated expenditure and income information reported. The "recap" portion of the process that compares actual income to the potential, and provides for discrepancies, is not being completed.

Recommendation

The site should implement procedures in which all revenue potential forms and processes are completed in full. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. In addition, the form allows the bookkeeper to compare the advisors log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted. The revenue potential form also indicates the weak control areas in the fundraising procedures, including lost or stolen merchandise, problems with collecting all moneys due and so forth. Revenue earned in the student body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. The revenue potential form and reconciliation are vital internal control tools that are used to document revenues, expenditures, potential revenue and actual revenue for fundraisers.

We will review the status of the current year comments during our next audit engagement.

Eide Bailly LLP

Fresno, California
December 22, 2020