



Financial and Performance Audits
Building Fund (Measures D and E)
June 30, 2021

Modesto City Schools

FINANCIAL AUDIT

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Financial Audit
Building Fund (Measures D and E)
June 30, 2021

Modesto City Schools



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Modesto City Schools' (the District), Building Fund (Measures D and E), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the 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 principles 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measures D and E) of Modesto City Schools as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measures D and E are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Modesto City Schools as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2022, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

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Fresno, California
January 18, 2022

Modesto City Schools
Building Fund (Measures D and E)
Balance Sheet
June 30, 2021

Assets	
Deposits and investments	\$ 65,556,499
Prepaid expenses	<u>47,520</u>
Total assets	<u><u>\$ 65,604,019</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	\$ 1,055,933
Due to other funds	<u>2</u>
Total liabilities	<u>1,055,935</u>
Fund Balance	
Nonspendable	47,520
Restricted for capital projects	<u>64,500,564</u>
Total fund balance	<u>64,548,084</u>
Total liabilities and fund balance	<u><u>\$ 65,604,019</u></u>

Modesto City Schools
Building Fund (Measures D and E)
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2021

Revenues	
Local sources	
Interest income	\$ 237,036
Net increase (decrease) in the fair value of investments	<u>(68,619)</u>
Total revenues	<u>168,417</u>
Current Expenditures	
Salaries and benefits, non-administrative	9,425
Supplies	
Materials	44,685
Services and other operating expenditures	
Rentals, leases, repairs, and noncapitalized improvements	896,347
Professional/consulting services and operating expenditures	776,399
Communications	116
Transfers of direct costs	2,217
Capital outlay	
Land improvements	1,082,486
Building and improvements to buildings	<u>7,208,475</u>
Total expenditures	<u>10,020,150</u>
Deficiency of Revenues over Expenditures	<u>(9,851,733)</u>
Other Financing Sources (Uses)	
Proceeds from bond issuance	61,000,000
Transfers in	270,840
Transfers out	<u>(10,507)</u>
Net Financing Sources (Uses)	<u>61,260,333</u>
Change in Fund Balance	51,408,600
Fund Balance - Beginning	<u>13,139,484</u>
Fund Balance - Ending	<u><u>\$ 64,548,084</u></u>

Note 1 - Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

Fund Accounting

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

Basis of Accounting

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

Budgets and Budgetary Accounting

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans or amounts due between funds are classified as "interfund receivables/payables".

Encumbrances

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

Fund Balance - Building Fund (Measures D and E)

As of June 30, 2021, the fund balance in the Building Fund (Measures D and E) was \$64,548,084.

As of June 30, 2021, the fund balance is classified as follows:

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

Spending Order Policy

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Investments

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the fairly value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Stanislaus County Pool. The District maintains a Building Fund (Measures D and E) investment of \$ 65,556,499 with the Stanislaus County Treasury Investment Pool, with a weighted average maturity of 870 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated, nor have they been rated as of June 30, 2021.

Note 3 - 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. Interfund receivable and payable balances at June 30, 2021, are as follows:

	Interfund Receivables	Interfund Payables
Major Governmental Funds		
General	\$ 2	\$ -
Building	-	2
	<hr/>	<hr/>
Total Governmental Funds	<u>\$ 2</u>	<u>\$ 2</u>
The Building Fund owes the General Fund to correct State Unemployment Insurance (SUI) tax overpayments.		
		<u>\$ 2</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2021, consisted of the following:

The Bond Interest and Redemption Non-Major Governmental Fund transferred \$270,840 to the Building Fund for the excess premium after issuance costs.

The Building Fund transferred \$10,507 to the General Fund for the Mark Twain fire restoration.

Note 4 - Accounts Payable

Accounts payable at June 30, 2021, consisted of \$1,055,933 payable to vendors and contractors.

Note 5 - Commitments and Contingencies

As of June 30, 2021, the Building Fund (Measures D and E) had the following commitments with respect to unfinished projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Wilson cafe and portable classroom replacement	\$ 1,206,815
Bret Harte fire reconstruction	464,586
La Loma - parking and streetscape improvements	3,913,907
Lakewood - single point of entry	<u>515,851</u>
Total	<u><u>\$ 6,101,159</u></u>

Litigation

The District is not currently a party to any legal proceedings related to the Building Fund (Measures D and E) as of June 30, 2021.



Independent Auditor's Report
June 30, 2021

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***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Modesto City Schools (the District) Building Fund (Measures D and E) as of and for the year ended June 30, 2021, and the related notes of the financial statements, and have issued our report thereon dated January 18, 2022.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to Measures D and E are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of Modesto City Schools as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Modesto City Schools' internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's Building Fund (Measures D and E) financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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Fresno, California
January 18, 2022

None reported.

Modesto City Schools
Building Fund (Measures D and E)
Summary of Schedule of Prior Audit Findings
June 30, 2021

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



Performance Audit
Building Fund (Measures D and E)
June 30, 2021

Modesto City Schools



Independent Auditor's Report on Performance

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

We were engaged to conduct a performance audit of the Modesto City Schools (the District) Building Fund (Measures D and E) for the year ended June 30, 2021.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution and Appendix A contained in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

This report is intended solely for the information and use of the District, and is not intended to be and should not be used by anyone other than this specified party.

Other Information

Our performance audit was conducted for the purpose of forming an opinion on the Districts compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution and Appendix A contained in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. The Supplementary Reports section is presented for purposes of additional analysis and are not a required part of the report.

The Supplementary Reports section has not been subjected to the auditing procedures applied in the compliance audit and, accordingly, we do not express an opinion or provide any assurance on it.

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Fresno, California
January 18, 2022

Authority for Issuance - 2018 Measure D

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

The District received authorization at an election held on November 6, 2018, to issue \$74,000,000 of general obligation bonds by vote of eligible voters within the District. The bonds are being issued to finance the acquisition, construction, modernization and equipping of certain health and safety improvements at District sites and facilities and to pay the costs of issuing the bonds. To date, the District has sold two issues of these authorized bonds as 2018 - Measure D, Series A in the total principal amount of \$16,000,000 and Series B in the total principal amount of \$41,000,000.

Purpose of Issuance - 2018 Measure D

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

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

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

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

- Improve security at schools by providing classroom intrusion alarms, video surveillance cameras, fencing, gates, access control systems, safety locks on classroom doors and exterior lighting for student safety and other security measures;
- Update aging classrooms and District facilities, or acquire and rehabilitate existing facilities, including acquisition of property to meet current fire and safety codes;
- Install or require fire alarm systems;
- Resurface playgrounds and asphalt play areas
- Install or repair playground equipment and play surfaces;

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

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

Elementary Schools

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

Middle/Junior High Schools

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

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

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

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

Authority for Issuance - 2018 Measure E

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

The District received authorization at an election held on November 6, 2018, to issue \$57,000,000 of general obligation bonds by vote of eligible voters within the District. The bonds are being issued to finance the acquisition, construction, modernization and equipping of certain classroom/science lab enhancements at District sites and facilities and to pay the costs of issuing the bonds. To date, the District has sold two issues of these authorized bonds as 2018 - Measure E, Series A in the total principal amount of \$11,000,000 and Series B in the total principal amount of \$20,000,000.

Purpose of Issuance - 2018 Measure E

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

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

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

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

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

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

B. Projects to enable schools to meet current academic standards

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

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

Elementary Schools

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

Middle/Junior High Schools

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

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

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

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

Authority for the Audit

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

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

2. The school district must list the specific school facilities projects to be funded in the ballot measure and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizen's oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

Objectives of the Audit

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

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2020 to June 30, 2021. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2021, were not reviewed or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2021, for the Building Fund (Measures D and E). Within the fiscal year audited, we obtained the actual invoices, purchase orders, and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measures D and E as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger.

2. We selected a sample of expenditures using the following criteria:
 - a. We considered all expenditures recorded in all object codes, where applicable, from July 1, 2020 through June 30, 2021 from Measures D and E bond proceeds.
 - b. Additionally, if payroll costs were noted, obtained backup for the source of the expenditures regardless if the amount was below our individually significant threshold to determine if they related to administrative duties not related to project management.
3. Our sample included transactions totaling \$1,499,321. This represents 15 percent of the total expenditures of \$10,020,150.
4. We reviewed the actual invoices and other supporting documentation to determine that:
 - a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
 - b. Expenditures were supported by proper bid documentation, as applicable.
 - c. Expenditures were expended in accordance with voter-approved bond project list.
 - d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.
5. We determined that the District has met the compliance requirement of Measures D and E if the following conditions were met:
 - a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
 - b. Supporting documents for expenditures were not used for salaries of school administrators or other operating expenses of the District.

Conclusion

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

None reported.

Modesto City Schools
Building Fund (Measures D and E)
Summary of Schedule of Prior Audit Findings
June 30, 2021

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