



Financial Statements  
June 30, 2021

# Modesto City Schools

Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Government-Wide Financial Statements	
Statement of Net Position .....	14
Statement of Activities.....	15
Government Fund Financial Statements	
Balance Sheet – Governmental Funds .....	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	20
Proprietary Fund Financial Statements	
Statement of Net Position – Proprietary Funds.....	22
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	23
Statement of Cash Flows – Proprietary Funds.....	24
Notes to Financial Statements.....	25
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund .....	71
Schedule of Changes in the District's Total OPEB Liability and Related Ratios .....	72
Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program.....	73
Schedule of the District's Proportionate Share of the Net Pension Liability .....	74
Schedule of the District Contributions.....	76
Notes to Required Supplementary Information .....	78
Supplementary Information	
Schedule of Expenditures of Federal Awards .....	80
Local Education Agency Organization Structure.....	84
Schedule of Instructional Time .....	85
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements .....	86
Schedule of Financial Trends and Analysis .....	87
Schedule of Charter Schools .....	88
Combining Balance Sheet – Non-Major Governmental Funds .....	89
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds.....	90
Notes to Supplementary Information.....	91
Independent Auditor's Reports	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	93

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Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance .....	95
Independent Auditor’s Report on State Compliance.....	97
Schedule of Findings and Questioned Costs	
Summary of Auditor’s Results.....	100
Financial Statement Findings .....	101
Federal Awards Findings and Questioned Costs.....	102
State Compliance Findings and Questioned Costs.....	103
Summary Schedule of Prior Audit Findings.....	104



## 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, 2021, 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, 2021, 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.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Notes 1 and 17 to the financial statements, Modesto City Schools has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position and fund balance as of July 1, 2020. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net OPEB liability – MPP program, schedule of the District's proportionate share of the net pension liability, and the schedule of District contributions, 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 non-major governmental 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 non-major governmental 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 non-major governmental 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 January 28, 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, 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.

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

Fresno, California  
January 28, 2022



Dr. Sara Noguchi  
Superintendent

#### Board of Education

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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, 2021, with comparative information for the fiscal year ended June 30, 2020. 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), 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 two categories of funds, which are governmental and proprietary.

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.

*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, deferred outflows, 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.

## FINANCIAL HIGHLIGHTS

- In May 2021, Modesto City Elementary District issued \$41,000,000 of Measure D Series B bonds and 20,000,000 of Measure E Series B bonds. Both bonds were approved by voters in 2018 and will provide \$131 million to repair and upgrade our aging elementary and junior high school education facilities.
- While the mandated LCAP approval process was replaced by the COVID-19 Operations Written Report in the 2020-2021 fiscal year, the District implemented a new three-year LCAP in the 2021-2022 fiscal year. The principal goal for the new report is to increase fiscal transparency by streamlining the LCAP content and format to make the report more accessible and understandable to parents and stakeholders. In addition to the new report, the LCFF concentration grant percentage increased from 50 percent to 65 percent of the base grant, to be used for increasing staffing at school sites to provide additional direct services to students, including custodial services.
- Modesto City Schools has been allocated more than \$190M in State and Federal COVID funding which can be spent through the 2023-2024 fiscal year. The District was able to utilize more than \$45M of those funds in the 2021-2022 fiscal year to mitigate learning loss from school closures and protect staff, students and community from the spread of COVID-19.
- Experienced a fourth year of decreased enrollment at K-8, a loss of 355 students; and a second year of increased enrollment at the 9-12 level, an addition of 279 students.

## THE DISTRICT AS A WHOLE

### Net Position

The District's net position was nearly \$8 million for the fiscal year ended June 30, 2021. Of this amount, \$71 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants, grantee restrictions 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	
	2021	2020 as Restated
Assets		
Current and other assets	\$ 370,452,510	\$ 260,225,831
Capital assets	369,136,313	363,535,376
Total assets	739,588,823	623,761,207
Deferred outflows of resources	185,067,673	122,992,036
Liabilities		
Current liabilities	65,094,674	45,808,522
Long-term liabilities	814,616,817	629,517,066
Total liabilities	879,711,491	675,325,588
Deferred inflows of resources	37,232,163	57,541,022
Net Position		
Net investment in capital assets	290,615,610	289,631,680
Restricted	70,814,350	47,598,091
Unrestricted (deficit)	(353,717,118)	(323,343,138)
Total net position	\$ 7,712,842	\$ 13,886,633

The \$8 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 9.4 percent (\$354) million compared to \$(323) 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	
	2021	2020*
Revenues		
Program revenues		
Charges for services	\$ 7,609,079	\$ 7,193,232
Operating grants and contributions	160,302,233	84,326,666
Capital grants and contributions	1,665,525	-
General revenues		
Federal and State aid not restricted	261,802,946	268,562,326
Property taxes	92,829,054	88,331,992
Other general revenues	2,108,196	6,099,247
Total revenues	<u>526,317,033</u>	<u>454,513,463</u>
Expenses		
Instruction-related	353,760,785	300,545,908
Pupil services	56,698,359	54,504,295
Administration	27,499,711	22,630,014
Plant services	56,456,223	55,889,350
All other services	38,466,628	35,204,609
Total expenses	<u>532,881,706</u>	<u>468,774,176</u>
Change in net position	<u>\$ (6,564,673)</u>	<u>\$ (14,260,713)</u>

\* The revenues and expenses for fiscal year 2020 were not restated to show the effects of GASB 84 for comparative purposes.

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$533 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$93 million because the cost was paid by those who benefited from the programs of \$8 million or by other governments and organizations who subsidized certain programs with grants and contributions of \$162 million. The District paid for the remaining "public benefit" portion of our governmental activities with \$262 million in Federal and State funds, and with \$2 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	
	2021	2020*	2021	2020*
Instruction-related	\$ 353,760,785	\$ 300,545,908	\$ (253,994,336)	\$ (256,765,669)
Pupil services	56,698,359	54,504,295	(27,837,518)	(31,933,055)
Administration	27,499,711	22,630,014	(22,030,746)	(20,684,305)
Plant services	56,456,223	55,889,350	(49,164,868)	(54,729,164)
All other services	38,466,628	35,204,609	(10,277,401)	(13,142,085)
Total	<u>\$ 532,881,706</u>	<u>\$ 468,774,176</u>	<u>\$ (363,304,869)</u>	<u>\$ (377,254,278)</u>

\* The total cost of services and net cost of services for fiscal year 2020 were not restated to show the effects of GASB 84 for comparative purposes.

## THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$285 million, which is an increase of \$88 million from last year (Table 4).

Table 4

Governmental Funds	Balances and Activity			
	July 1, 2020 as Restated	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2021
General	\$ 113,572,767	\$ 461,542,285	\$ 432,751,722	\$ 142,363,330
Student Activities	3,242,729	602,894	822,338	3,023,285
Adult Education	353,741	1,036,013	919,138	470,616
Child Development	724,184	12,007,116	11,386,556	1,344,744
Cafeteria	5,253,083	18,502,231	14,983,946	8,771,368
Deferred Maintenance	2,625,858	3,985,904	6,474,797	136,965
Building	13,139,484	61,439,257	10,030,657	64,548,084
Capital Facilities	1,647,338	1,094,296	1,162,581	1,579,053
Special Reserve Fund for Capital Outlay Projects	30,701,209	6,967,884	6,416,739	31,252,354
Bond Interest and Redemption	17,777,512	21,362,183	16,474,340	22,665,355
Debt Service	7,991,156	1,941,841	862,462	9,070,535
Total	<u>\$ 197,029,061</u>	<u>\$ 592,154,495</u>	<u>\$ 503,957,867</u>	<u>\$ 285,225,689</u>

The increase in the General Fund of \$29 million was due primarily to increased Federal and State revenues received due to the COVID-19 pandemic. The Capital Projects fund types increased by \$52 million primarily due to receiving \$61 million in bond proceeds from the issuance of two series of general obligation bonds. The District's Special Revenue fund types increased by \$1.8 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 July 26, 2021. 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 budgeted a decrease in the General Fund of approximately \$9 million. However, revenues and other sources were \$27 million less than budgeted, and expenditures and other uses were approximately \$65 million less than budgeted, resulting in an actual increase of \$29 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2021, the District had \$369 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This represents an increase of \$6 million over the prior year (Table 5).

Table 5

	Governmental Activities	
	2021	2020
Land and construction in progress	\$ 37,748,085	\$ 22,578,660
Buildings and improvements	316,955,198	327,604,163
Equipment	14,433,030	13,352,553
Total	<u>\$ 369,136,313</u>	<u>\$ 363,535,376</u>

This year's additions of \$19,349,757 included on-going construction projects, various site improvements, ten school buses, mowers and a utility cart. General obligation bonds were issued to help finance on-going construction projects. 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 \$815 million in long-term liabilities outstanding versus \$630 million last year, an increase of 29.4 percent (Table 6).

Table 6

	Governmental Activities	
	2021	2020
Long-Term Liabilities		
General obligation bonds	\$ 166,218,284	\$ 115,738,381
Qualified Zone Academy Bonds	16,420,000	16,420,000
Unamortized premiums	7,273,998	1,977,927
Gregori traffic mitigation	205,331	221,885
Capital leases	8,274,295	10,744,145
Compensation benefits	662,213	662,213
Compensated absences	1,357,501	1,673,665
Claims liability	9,086,388	9,881,634
Net OPEB liability	161,433,423	72,012,792
Supplemental Early Retirement Program	6,297,861	-
Aggregate net pension liability	437,387,523	400,184,424
Total	<u>\$ 814,616,817</u>	<u>\$ 629,517,066</u>

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 \$437 million versus \$400 million last year an increase of \$37 million. In addition, the District reported deferred outflows of resources from pension activities of \$109 million and deferred inflows of resources from pension activities of \$24 million. The net impact on the District's net position of these pension related items is \$(353) million.

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

**SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2020-2021 ARE NOTED BELOW:**

The District completed the following significant projects in 2020-2021:

- Beyer High JROTC Renovation
- Downey High Agriculture Storage Building
- District-wide LED lighting upgrade
- Play structure replacement at Burbank, Fremont, Martone, Rob Rd
- Four Room Classroom Building Addition (Health Services Academy) – Davis High School
- Transportation Department shop improvements
- Exterior painting: Beyer, Wilson, Bret Harte, Fairview, Martone, Kirschen, Elliott, District Office
- 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, Elliott

- Secure lobby and staircase: District Office
- Field Renovation: Marshall, Rose Ave, Bret Harte, Everett

The District began the following significant projects in 2020-2021:

- Wilson new cafeteria/multipurpose room
- Johansen High Fitness Center
- La Loma parking and streetscape
- Hanshaw new Science Lab Building
- Davis High electrical upgrades
- Play structure replacement at Fremont kinder, Marshall, Wilson
- Lakewood single entry point
- Re-roofing at Bret Harte, El Vista, Sonoma, Mark Twain, Davis, Downey
- Paving/slurry at Martone, Rose, Enochs

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In considering the District Budget for the 2021-2022 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.

On March 11, 2021, the American Rescue Plan (ARP) Act was signed into law. The bill included \$54.3 billion for the Elementary and Secondary School Emergency Relief (ESSER) Fund as well as an extension of the CARES Act Coronavirus Relief Fund (CRF) expenditure deadline from December 30, 2020 to December 31, 2021. Since the state allocated \$4.4 billion of its CRF share to the learning loss mitigation initiative in the 2020-2021 State Budget Act, this allowed the extension of those funds as well. In total the District anticipates utilizing \$145,000,000 in State and Federal pandemic relief funding over the next three years.

The District settled with CSEA in the 2020-2021 fiscal year. The agreement provided for a one time off the salary schedule payment of one percent for 2019-2020 and a one percent ongoing raise retroactive to July 1, 2020. The agreement also provided an additional \$300 towards health and wellness benefits.

No additional funding was provided by the State for CalPERS or CalSTRS in the 2021-2022 fiscal year. While the prior investments reduced the employer contribution rate for the 2021-2022 fiscal year, the CalPERS employer contribution rate still increased from 20.70 percent to 22.91 percent and the CalSTRS employer contribution rate increased from 16.15 percent to 16.92 percent.

The District also projects increased expenditures as it relates to the ongoing pandemic. One of the larger increases is the District contribution to the School Employees Unemployment Insurance Fund. The rate established for fiscal year 2021-2022 is 0.50 percent of total payroll. This is an increase from the prior fiscal year of 0.05 percent. Other large increases related to personnel expenditures are also projected for substitutes due to mandatory quarantine requirements issued by the State.

While the State economy has rebounded faster than anticipated, the pandemic still remains a concerning factor in the upcoming fiscal year. With the expiration of the hold-harmless clause for calculating LCFF funding, fluctuating attendance due to State and local quarantining requirements could impact the funding calculation in the current year. In addition, 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](mailto:Zearley.T@monet.k12.ca.us).



Modesto City Schools  
Statement of Net Position  
June 30, 2021

	Governmental Activities
Assets	
Deposits and investments	\$ 286,931,315
Receivables	78,643,332
Prepaid expense	3,608,071
Stores inventories	1,269,792
Capital assets not depreciated	37,748,085
Capital assets, net of accumulated depreciation	331,388,228
Total assets	<u>739,588,823</u>
Deferred Outflows of Resources	
Deferred charge on refunding	56,763
Deferred outflows of resources related to OPEB	75,893,290
Deferred outflows of resources related to pensions	109,117,620
Total deferred outflows of resources	<u>185,067,673</u>
Liabilities	
Overdrafts	1,531,318
Accounts payable	55,275,565
Interest payable	830,587
Unearned revenue	7,327,204
Claims liability, dental	130,000
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	17,774,437
Long-term liabilities other than OPEB and pensions due in more than one year	198,021,434
Total other postemployment benefits liability (OPEB)	161,433,423
Aggregate net pension liabilities	437,387,523
Total liabilities	<u>879,711,491</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	12,774,996
Deferred inflows of resources related to pensions	24,457,167
Total deferred inflows of resources	<u>37,232,163</u>
Net Position	
Net investment in capital assets	290,615,610
Restricted for	
Debt service	31,735,890
Capital projects	1,579,053
Educational programs	26,193,355
Food services	8,282,767
Student activities	3,023,285
Unrestricted (deficit)	(353,717,118)
Total net position	<u>\$ 7,712,842</u>

Modesto City Schools  
Statement of Activities  
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Instruction	\$ 289,928,986	\$ 1,971,065	\$ 83,431,316	\$ 1,665,525	\$ (202,861,080)
Instruction-related activities					
Supervision of instruction	22,802,382	178,440	8,108,149	-	(14,515,793)
Instructional library, media, and technology	7,209,742	2	487,824	-	(6,721,916)
School site administration	33,819,675	294,963	3,629,165	-	(29,895,547)
Pupil services					
Home-to-school transportation	9,547,160	16,268	4,044,148	-	(5,486,744)
Food services	14,791,813	59,228	15,616,189	-	883,604
All other pupil services	32,359,386	116,095	9,008,913	-	(23,234,378)
Administration					
Data processing	11,437,969	-	480,802	-	(10,957,167)
All other administration	16,061,742	27,053	4,961,110	-	(11,073,579)
Plant services	56,456,223	16,175	7,275,180	-	(49,164,868)
Ancillary services	6,652,611	-	2,688,406	-	(3,964,205)
Community services	10,542,870	55,728	9,518,242	-	(968,900)
Enterprise services	3,481,912	3,659,129	6,176	-	183,393
Interest on long-term liabilities	7,993,155	-	-	-	(7,993,155)
Other outgo	9,796,080	1,214,933	11,046,613	-	2,465,466
Total governmental activities	<u>\$ 532,881,706</u>	<u>\$ 7,609,079</u>	<u>\$ 160,302,233</u>	<u>\$ 1,665,525</u>	<u>(363,304,869)</u>
General Revenues and Subventions					
Property taxes, levied for general purposes					73,005,263
Property taxes, levied for debt service					16,082,189
Taxes levied for other specific purposes					3,741,602
Federal and State aid not restricted to specific purposes					261,802,946
Interest and investment earnings					428,957
Interagency revenues					223,018
Miscellaneous					<u>1,456,221</u>
Subtotal, general revenues					<u>356,740,196</u>
Change in Net Position					(6,564,673)
Net Position - Beginning, as Restated					<u>14,277,515</u>
Net Position - Ending					<u>\$ 7,712,842</u>

Modesto City Schools  
Balance Sheet – Governmental Funds  
June 30, 2021

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Deposits and investments	\$ 122,289,163	\$ 65,556,499	\$ 79,159,784	\$ 267,005,446
Receivables	74,338,271	-	4,173,395	78,511,666
Due from other funds	1,475,817	-	793,164	2,268,981
Prepaid expenditures	3,016,351	47,520	-	3,063,871
Stores inventories	781,691	-	488,101	1,269,792
<b>Total assets</b>	<b>\$ 201,901,293</b>	<b>\$ 65,604,019</b>	<b>\$ 84,614,444</b>	<b>\$ 352,119,756</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Overdrafts	\$ -	\$ -	\$ 1,531,318	\$ 1,531,318
Accounts payable	50,455,064	1,055,933	3,177,071	54,688,068
Due to other funds	1,860,532	2	1,486,943	3,347,477
Unearned revenue	7,222,367	-	104,837	7,327,204
<b>Total liabilities</b>	<b>59,537,963</b>	<b>1,055,935</b>	<b>6,300,169</b>	<b>66,894,067</b>
<b>Fund Balances</b>				
Nonspendable	3,948,043	47,520	488,601	4,484,164
Restricted	24,377,995	64,500,564	46,436,355	135,314,914
Committed	5,472,852	-	136,965	5,609,817
Assigned	38,280,348	-	31,252,354	69,532,702
Unassigned	70,284,092	-	-	70,284,092
<b>Total fund balances</b>	<b>142,363,330</b>	<b>64,548,084</b>	<b>78,314,275</b>	<b>285,225,689</b>
<b>Total liabilities and fund balances</b>	<b>\$ 201,901,293</b>	<b>\$ 65,604,019</b>	<b>\$ 84,614,444</b>	<b>\$ 352,119,756</b>

Modesto City Schools

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2021

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Total Fund Balance - Governmental Funds \$ 285,225,689

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	\$ 578,597,985
Accumulated depreciation is	<u>(209,461,672)</u>

Net capital assets	369,136,313
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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. (830,587)

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. 11,876,346

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 (deferred charge on refunding)	56,763
Other postemployment benefits (OPEB)	75,893,290
Net pension liability	<u>109,117,620</u>

Total deferred outflows of resources	185,067,673
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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 (OPEB)	(12,774,996)
Net pension liability	<u>(24,457,167)</u>

Total deferred inflows of resources	(37,232,163)
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Net pension liability is not due and payable in the current period,  
and is not reported as a liability in the funds. (437,387,523)

The District's OPEB liability is not due and payable in the current period,  
and is not reported as a liability in the funds. (161,433,423)

Modesto City Schools  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2021

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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 including unamortized premiums	(134,851,255)
Capital leases	(8,274,296)
Compensated absences (vacations)	(1,357,501)
Special termination benefits payable	(7,165,404)

In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is

(55,061,027)

Total long-term liabilities	<u>(206,709,483)</u>
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Total net position - governmental activities	<u><u>\$ 7,712,842</u></u>
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**Modesto City Schools**

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2021

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local Control Funding Formula	\$ 326,528,716	\$ -	\$ 2,000,000	\$ 328,528,716
Federal sources	57,573,621	-	22,583,947	80,157,568
Other State sources	70,635,779	-	10,523,162	81,158,941
Other local sources	6,346,149	168,417	22,623,105	29,137,671
<b>Total revenues</b>	<b>461,084,265</b>	<b>168,417</b>	<b>57,730,214</b>	<b>518,982,896</b>
<b>Expenditures</b>				
Current				
Instruction	239,615,401	-	4,213,797	243,829,198
Instruction-related activities				
Supervision of instruction	17,902,286	-	2,691,644	20,593,930
Instructional library, media, and technology	6,400,610	-	-	6,400,610
School site administration	29,733,530	-	227,077	29,960,607
Pupil services				
Home-to-school transportation	10,657,823	-	-	10,657,823
Food services	462,890	-	13,132,545	13,595,435
All other pupil services	29,019,401	-	70,859	29,090,260
Administration				
Data processing	10,738,210	-	-	10,738,210
All other administration	13,612,418	-	1,336,534	14,948,952
Plant services	43,072,665	-	6,061,856	49,134,521
Ancillary services	5,436,175	-	822,338	6,258,513
Community services	5,629,879	-	4,115,575	9,745,454
Other outgo	9,796,080	-	-	9,796,080
Enterprise services	274,718	-	-	274,718
Facility acquisition and construction	1,705,265	9,502,417	10,033,329	21,241,011
Debt service				
Principal	2,469,850	-	15,216,554	17,686,404
Interest and other	476,302	517,733	2,155,603	3,149,638
<b>Total expenditures</b>	<b>427,003,503</b>	<b>10,020,150</b>	<b>60,077,711</b>	<b>497,101,364</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>34,080,762</b>	<b>(9,851,733)</b>	<b>(2,347,497)</b>	<b>21,881,532</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	458,020	270,840	6,047,643	6,776,503
Proceeds from sale of bonds	-	61,000,000	-	61,000,000
Premium on bond issuance	-	-	5,395,096	5,395,096
Transfers out	(5,748,219)	(10,507)	(1,097,777)	(6,856,503)
<b>Net Financing Sources (Uses)</b>	<b>(5,290,199)</b>	<b>61,260,333</b>	<b>10,344,962</b>	<b>66,315,096</b>
<b>Net Change in Fund Balances</b>	<b>28,790,563</b>	<b>51,408,600</b>	<b>7,997,465</b>	<b>88,196,628</b>
<b>Fund Balance - Beginning, as Restated</b>	<b>113,572,767</b>	<b>13,139,484</b>	<b>70,316,810</b>	<b>197,029,061</b>
<b>Fund Balance - Ending</b>	<b>\$ 142,363,330</b>	<b>\$ 64,548,084</b>	<b>\$ 78,314,275</b>	<b>\$ 285,225,689</b>

# Modesto City Schools

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds \$ 88,196,628

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 capital outlays exceeds depreciation in the period.

Depreciation expense	\$ (13,281,675)
Capital outlays	<u>19,349,757</u>

Net expense adjustment 6,068,082

The District issued capital appreciation general obligations bonds. The accretion of interest on the general obligation bonds during the current fiscal year was (4,679,903)

Gain(Loss) on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (467,145)

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. (5,981,697)

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. (26,314,439)

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. (17,915,063)

# Modesto City Schools

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2021

Proceeds received from general obligation bonds are a revenue in the governmental funds, but increase long-term liabilities in the Statement of Net Position and do not affect the Statement of Activities.	(61,000,000)
Governmental funds report the effect of premiums, discounts, and the deferred charge on refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Premium on issuance recognized	(5,395,096)
Premium amortization	99,025
Deferred charge 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	15,200,000
Capital leases	2,469,850
Gregori traffic mitigation	16,554
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.	(252,907)
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.	3,401,170
Change in net position of governmental activities	<u>\$ (6,564,673)</u>



Modesto City Schools  
Statement of Net Position – Proprietary Funds  
June 30, 2021

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	<u>Self Insurance Internal Service Fund</u>
Assets	
Current assets	
Deposits and investments	\$ 19,925,869
Receivables	131,666
Due from other funds	1,080,000
Prepaid expenses	<u>544,200</u>
Total current assets	<u>21,681,735</u>
Liabilities	
Current liabilities	
Accounts payable	587,497
Due to other funds	1,504
Current portion of claims liabilities	<u>130,000</u>
Total current liabilities	<u>719,001</u>
Noncurrent liabilities	
Claims liabilities	<u>9,086,388</u>
Total liabilities	<u>9,805,389</u>
Net Position	
Restricted	<u>11,876,346</u>
Total net position	<u><u>\$ 11,876,346</u></u>

**Modesto City Schools**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds**  
**Year Ended June 30, 2021**

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	<u>Self Insurance Internal Service Fund</u>
Operating Revenues	
Charges for services	<u>\$ 12,592,077</u>
Operating Expenses	
Payroll costs	427,861
Professional and contract services	511,549
Supplies and materials	55,127
Rental, leases and repairs	84,287
Other operating cost	<u>8,199,556</u>
Total operating expenses	<u>9,278,380</u>
Operating Income	<u>3,313,697</u>
Nonoperating Revenues	
Fair market value adjustments	(216,406)
Interest income	<u>223,879</u>
Total nonoperating revenues	<u>7,473</u>
Income before transfers	<u>3,321,170</u>
Other financing sources	
Transfers in	<u>80,000</u>
Change in Net Position	3,401,170
Total Net Position - Beginning	<u>8,475,176</u>
Total Net Position - Ending	<u><u>\$ 11,876,346</u></u>

Modesto City Schools  
Statement of Cash Flows – Proprietary Funds  
Year Ended June 30, 2021

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	Self Insurance Internal Service Fund
Operating Activities	
Cash receipts from operating funds	\$ 11,317,936
Cash payments for claims and insurance	(8,714,737)
Other operating cash payments	(687,497)
Cash payments to employees for services	(427,861)
Other operating cash receipts	122,243
	<u>1,610,084</u>
Net Cash From Operating Activities	
Capital and Related Financing Activities	
Operating transfers in	<u>80,000</u>
Investing Activities	
Interest earned and changes in the fair value of investments	<u>7,473</u>
Net Change in Cash and Cash Equivalents	1,697,557
Cash and Cash Equivalents, Beginning	<u>18,228,312</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 19,925,869</u></u>
Reconciliation of Operating Loss to Net Cash From Operating Activities	
Operating income	\$ 3,313,697
Changes in assets and liabilities	
Receivables	(71,898)
Due from other fund	(1,080,000)
Claims liabilities	(550,907)
Due to other fund	(808)
	<u>(1,389,503)</u>
Net Cash From Operating Activities	<u><u>\$ 1,610,084</u></u>

## **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 two broad fund categories, which are governmental and proprietary.

**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 \$5,677,507.

**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.

## 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.

- **Student Activities Fund** The Student Activities Fund is used to account separately for the operating activities of the associated student body accounts that are not fiduciary in nature, including student clubs, general operations, athletics, and other student body activities.
- **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).

- **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).
- **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).

**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.

#### **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.

**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.

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.

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.

### **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, 2021, 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 \$70,422,592 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**

### **Implementation of GASB Statement No. 84**

As of July 1, 2020, the District adopted GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the District resulted in a reclassification of the District's student body and scholarship trust activities from fiduciary to governmental. The effect of the implementation of this standard on beginning fund balance and net position is disclosed in Note 17.

### **New Accounting Pronouncements**

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.

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.

## Note 2 - Deposits and Investments

### Summary of Deposits and Investments

Deposits and investments as of June 30, 2021, are classified in the accompanying financial statements as follows:

Governmental funds, net of overdrafts	\$ 267,005,446
Proprietary funds	<u>19,925,869</u>
Total deposits and investments	<u><u>\$ 286,931,315</u></u>

Deposits and investments as of June 30, 2021, consist of the following:

Cash on hand and in banks	\$ 5,404,493
Cash with fiscal agent	3,107
Cash in revolving	150,500
Investments	<u>281,373,215</u>
Total deposits and investments	<u><u>\$ 286,931,315</u></u>

The County School Facilities Fund had a deficit Cash in County balance at June 30, 2021, in the amount of \$1,531,318.

### 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 has 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. The District maintains an investment of \$272,075,561 in the Stanislaus County investment Pool that has an average weighted maturity of 870 days. The District maintains an investment in the Local Agency Investment Fund (LAIF) that has an averaged weighted maturity of 365 days.

### 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)	\$ 9,070,535	\$ -	\$ -	\$ 9,070,535
Local Agency Investment Fund (LAIF)	227,118	227,118	-	-
County Pool	<u>272,075,562</u>	<u>-</u>	<u>272,075,562</u>	<u>-</u>
Total	<u>\$ 281,373,215</u>	<u>\$ 227,118</u>	<u>\$ 272,075,562</u>	<u>\$ 9,070,535</u>

### 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, 2021, \$4,103,352 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 \$9,070,535, the District has a custodial credit risk exposure of \$9,070,535 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.

The District's fair value measurements are as follows at June 30, 2021:

Investment Type	Reported Amount	Fair Value Measurements Using *		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Guarantee Investment Contract (GIC)	\$ 9,070,535	\$ 9,070,535	\$ -	\$ -

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

\* Credit risk is the risk that an issuer of an investment will not fulfill its obligations 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 investment with the Stanislaus County Investment Pool and the Local Agency Investment Fund (LAIF) are currently not rated, nor are they required to be rated.

**Note 4 - Receivables**

Receivables at June 30, 2021, 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	\$ 11,440,699	\$ 1,558,715	\$12,999,414	\$ -	\$ 12,999,414
State Government					
LCFF apportionment	48,176,953	-	48,176,953	-	48,176,953
State grants and other entitlements	11,912,617	2,510,786	14,423,403	-	14,423,403
Local sources	2,808,002	103,894	2,911,896	131,666	3,043,562
	<u>\$ 74,338,271</u>	<u>\$ 4,173,395</u>	<u>\$78,511,666</u>	<u>\$ 131,666</u>	<u>\$ 78,643,332</u>
Total					

**Note 5 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2021, is as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 19,991,733	\$ -	\$ -	\$ 19,991,733
Construction in progress	2,586,927	16,529,512	(1,360,087)	17,756,352
Total capital assets not being depreciated	22,578,660	16,529,512	(1,360,087)	37,748,085
Capital assets being depreciated				
Land improvements	52,222,219	537,768	(689,755)	52,070,232
Buildings and improvements	459,667,339	822,319	-	460,489,658
Furniture and equipment	25,734,995	2,820,245	(265,230)	28,290,010
Total capital assets being depreciated	537,624,553	4,180,332	(954,985)	540,849,900
Total capital assets	560,203,213	20,709,844	(2,315,072)	578,597,985
Accumulated depreciation				
Land improvements	(19,396,590)	(2,364,173)	250,087	(21,510,676)
Buildings and improvements	(164,888,805)	(9,205,211)	-	(174,094,016)
Furniture and equipment	(12,382,442)	(1,712,291)	237,753	(13,856,980)
Total accumulated depreciation	(196,667,837)	(13,281,675)	487,840	(209,461,672)
Governmental activities capital assets, net	\$ 363,535,376	\$ 7,428,169	\$ (1,827,232)	\$ 369,136,313

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 10,453,484
Instructional library, media, and technology	10,250
School site administration	356,991
Home-to-school transportation	571,377
Food services	787,003
Community Services	239,893
Data processing	49,691
All other administration	201,290
Plant services	611,696
	<u>611,696</u>
Total depreciation expenses governmental activities	<u><u>\$ 13,281,675</u></u>

## 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, 2021, are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Funds		
General	\$ 1,475,817	\$ 1,860,532
Building	-	2
Non-Major Governmental Funds		
Adult Education	268,535	164
Child Development	9,856	370,170
Cafeteria	4,078	1,087,371
Deferred Maintenance	-	9
County School Facilities	7,066	-
Special Reserve Fund for Capital		
Outlay Projects	503,629	29,229
Internal Service-Self Insurance	1,080,000	1,504
	<u>1,080,000</u>	<u>1,504</u>
Total	<u><u>\$ 3,348,981</u></u>	<u><u>\$ 3,348,981</u></u>

The General Fund owes the Non-Major Governmental Adult Education Fund to close the Adult Education Fund.	\$ 268,532
The General Fund owes the Non-Major Governmental Adult Education Fund for CSEA release time credit corrections.	3
The General Fund owes the Non-Major Governmental Child Development Fund to close out the CCTR resource.	254
The General Fund owes the Non-Major Governmental Child Development Fund CSEA release time credit corrections.	4,036
The General Fund owes the Non-Major Governmental Cafeteria Fund for catering costs.	3,987
The General Fund owes the Non-Major Governmental Cafeteria Fund for CSEA release time credit corrections.	91
The General Fund owes the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for construction project costs.	501,294
The General Fund owes the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects to close out local resources.	2,335
The General Fund owes the Self Insurance Fund for the annual property and liability transfer.	1,080,000
The Non-Major Governmental Adult Education Fund owes the General Fund to correct SUI overpayments.	161
The Non-Major Governmental Adult Education Fund owes the General Fund for postage costs.	3
The Non-Major Governmental Child Development Fund owes the General Fund for the Child Development Programs indirect costs.	212,177
The Non-Major Governmental Child Development Fund owes the General Fund for utility charges.	7,483
The Non-Major Governmental Child Development Fund owes the General Fund to correct SUI overpayments.	1,422
The Non-Major Governmental Child Development Fund owes the General Fund for postage costs.	124
The Non-Major Governmental Child Development Fund owes the General Fund to close out the CCTR resource.	103,410
The Non-Major Governmental Child Development Fund owes the General Fund to close out local resources.	45,554
The Non-Major Governmental Cafeteria Fund owes the General Fund for indirect costs.	1,035,964
The Non-Major Governmental Cafeteria Fund owes the General Fund to close out Resource 7027.	43,292
The Non-Major Governmental Cafeteria Fund owes the General Fund for fourth quarter tax costs.	787
The Non-Major Governmental Cafeteria Fund owes the General Fund for postage costs.	2
The Non-Major Governmental Cafeteria Fund owes the General Fund to correct SUI overpayments.	1,760
The Non-Major Governmental Cafeteria Fund owes the Non-Major Governmental Child Development Fund for catering costs.	5,566
The Non-Major Governmental Deferred Maintenance Fund owes the General Fund to correct SUI overpayments.	9
The Building Fund owes the General Fund to correct SUI overpayments.	2
The Non-Major Governmental Special Reserve Fund for Capital Outlay Projects owes the General Fund for Prop 39 retrofit.	22,163
The Non-Major Governmental Special Reserve Fund for Capital Outlay Projects owes the Non-Major Governmental County School Facilities Fund for construction project costs.	7,066
The Self Insurance Fund owes the General Fund for payroll corrections.	1,504
Total	<u>\$ 3,348,981</u>

## 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, 2021, consist of the following:

The General Fund transferred to the Non-Major Governmental Adult Education Fund for Adult Education Programs.	\$ 268,533
The General Fund transferred to the Non-Major Governmental Child Development Fund for Special Education Preschool.	80,144
The General Fund transferred to the Non-Major Governmental Deferred Maintenance Fund for deferred maintenance expenses.	2,000,000
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for 9-12 facility improvement reserve.	2,000,000
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for turf replacement reserve.	100,000
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for the bus replacement reserve.	13,227
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for the White Fleet vehicle replacement reserve.	275,000
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for the Reprographics equipment replacement reserve.	2,334
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for auditorium replacement reserve.	4,576
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for the emergency repair reserve.	491,804
The General Fund transferred to the Non-Major Governmental Special Reserve Fund for Capital Outlay Projects for the Johansen fire restoration.	32,601
The General Fund transferred to the Non-Major Governmental Debt Service Fund for the required sinking fund debt service payments.	400,000
The General Fund transferred to the Self Insurance Fund for vision self insurance.	80,000
The Non-Major Governmental Cafeteria Fund transferred to the General Fund for routine restricted maintenance.	392,595
The Building Fund transferred to the General Fund for the Mark Twain fire restoration.	10,507
The Non-Major Governmental Capital Facilities Fund transferred to the General Fund for Developer fee administrative costs.	32,756
The Non-Major Governmental Capital Facilities Fund transferred to the Non-Major Governmental Debt Service Fund for the annual sinking fund payment.	150,000
The Non-Major Governmental Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Governmental Debt Service Fund for the annual sinking fund payment.	220,857
The Non-Major Governmental Special Reserve Fund for Capital Outlay Projects transferred to the Non-Major Governmental County School Facilities Fund to cover the negative interest in the fund.	7,066
The Non-Major Governmental Special Reserve Fund for Capital Outlay Projects transferred to the General Fund the unspent California Clean Energy grant interest earned due to the California Department of Education.	22,163

The Non-Major Governmental Bond Interest and Redemption Fund transferred to the Building Fund the excess premium after issuance costs.	270,840
The Non-Major Governmental Bond Interest and Redemption Fund transferred to the Non-Major Governmental Fund for Capital Outlay Projects for annual trustee fee of \$750 per bond measure.	<u>1,500</u>
Total	<u><u>\$ 6,856,503</u></u>

#### Note 7 - Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) at June 30, 2021, consist of the following:

	General Fund	Building Fund	Self Insurance Internal Service Fund	Total Governmental Activities
General vendors	\$ 1,756,779	\$ 47,520	\$ -	\$ 1,804,299
Early retirement incentive	1,259,572	-	-	1,259,572
Workers' compensation and dental insurance	-	-	544,200	544,200
Total	<u><u>\$ 3,016,351</u></u>	<u><u>\$ 47,520</u></u>	<u><u>\$ 544,200</u></u>	<u><u>\$ 3,608,071</u></u>

#### Note 8 - Accounts Payable

Accounts payable at June 30, 2021, 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	\$ 9,266,498	\$ 1,055,933	\$ 3,177,071	\$ 13,499,502	\$ 587,497	\$ 14,086,999
LCFF apportionment	21,665,691	-	-	21,665,691	-	21,665,691
Salaries and benefits	19,522,875	-	-	19,522,875	-	19,522,875
Total	<u><u>\$ 50,455,064</u></u>	<u><u>\$ 1,055,933</u></u>	<u><u>\$ 3,177,071</u></u>	<u><u>\$ 54,688,068</u></u>	<u><u>\$ 587,497</u></u>	<u><u>\$ 55,275,565</u></u>

## Note 9 - Unearned Revenue

Unearned revenue at June 30, 2021, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 4,546,126	\$ 104,837	\$ 4,650,963
State categorical aid	2,673,229	-	2,673,229
Other local	3,012	-	3,012
Total	<u>\$ 7,222,367</u>	<u>\$ 104,837</u>	<u>\$ 7,327,204</u>

## 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, 2020	Additions	Deductions	Balance June 30, 2021	Due in One Year
Long-Term Liabilities					
General obligation bonds	\$ 115,738,381	\$ 65,679,903	\$ (15,200,000)	\$ 166,218,284	\$ 15,900,000
Qualified School Construction Bonds	16,420,000	-	-	16,420,000	-
Unamortized debt premiums	1,977,927	5,395,096	(99,025)	7,273,998	-
Capital leases	10,744,145	-	(2,469,850)	8,274,295	554,296
Gregori traffic mitigation	221,885	-	(16,554)	205,331	60,569
Supplemental early retirement program	-	6,297,861	-	6,297,861	1,259,572
Compensated absences	1,673,665	-	(316,164)	1,357,501	-
Claims liability, see Note 13	9,881,634	2,191,897	(2,987,143)	9,086,388	-
Compensation benefits	662,213	-	-	662,213	-
Total	<u>\$ 157,319,850</u>	<u>\$ 79,564,757</u>	<u>\$ (21,088,736)</u>	<u>\$ 215,795,871</u>	<u>\$ 17,774,437</u>

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 the Supplemental Early Retirement Program, compensated absences, and compensation benefits are made from the fund for which the related employee worked.



### General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2020	Issued	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2021
MCESD 2001, Series A								
5/2/02	5/1/27	4.8-5.93	\$ 16,998,337	\$ 6,048,352	\$ -	\$ -	\$ (832,891)	\$ 5,215,461
		Accreted interest		11,278,467	-	906,497	(1,527,109)	10,657,855
MHSD 2001, Series A								
5/2/02	5/1/27	3.79-5.95	64,996,180	24,919,251	-	-	(3,197,455)	21,721,796
		Accreted interest		46,492,311	-	3,773,406	(5,862,545)	44,403,172
MCESD 2018-D, Series A								
5/29/19	8/1/49	4.0-5.0	16,000,000	16,000,000	-	-	(2,120,000)	13,880,000
MCESD 2018-E, Series A								
5/29/19	8/1/49	3.0-5.0	11,000,000	11,000,000	-	-	(1,660,000)	9,340,000
MCESD 2018-D, Series B								
5/29/19	8/1/49	4.0-5.0	41,000,000	-	41,000,000	-	-	41,000,000
MCESD 2018-E, Series B								
5/29/19	8/1/49	3.0-5.0	20,000,000	-	20,000,000	-	-	20,000,000
Total				<u>\$ 115,738,381</u>	<u>\$ 61,000,000</u>	<u>\$ 4,679,903</u>	<u>\$ (15,200,000)</u>	<u>\$ 166,218,284</u>

### 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
2022	\$ 4,030,346	\$ 8,013,161	\$ 12,043,507	\$ 56,493	\$ 12,100,000
2023	4,010,787	7,986,049	11,996,836	773,164	12,770,000
2024	3,965,596	7,938,212	11,903,808	1,526,192	13,430,000
2025	3,920,217	7,813,285	11,733,502	2,306,498	14,040,000
2026	3,842,608	7,726,925	11,569,533	3,110,467	14,680,000
2027	7,503,470	15,247,628	22,751,098	8,558,902	31,310,000
Total	<u>\$ 27,273,024</u>	<u>\$ 54,725,260</u>	<u>\$ 81,998,284</u>	<u>\$ 16,331,716</u>	<u>\$ 98,330,000</u>

The current interest bonds mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2022	\$ 3,800,000	\$ 1,309,861	\$ 5,109,861
2023	3,435,000	2,691,706	6,126,706
2024	3,565,000	2,588,656	6,153,656
2025	1,590,000	2,481,705	4,071,705
2026	695,000	2,434,006	3,129,006
2027-2031	5,255,000	11,651,627	16,906,627
2032-2036	8,835,000	10,298,550	19,133,550
2037-2041	13,270,000	8,353,650	21,623,650
2042-2046	18,570,000	5,897,900	24,467,900
2047-2050	25,205,000	2,480,450	27,685,450
Total	<u>\$ 84,220,000</u>	<u>\$ 50,188,111</u>	<u>\$ 134,408,111</u>

#### 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, 2021, the balance in the escrow account is \$9,070,535 and is reported in the District's Debt Service Fund.

#### 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:

	<u>Total</u>
Balance, July 1, 2020	\$ 10,744,145
Payments	<u>(2,469,850)</u>
Balance, July 1, 2021	<u>\$ 8,274,295</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2022	\$ 804,276
2023	772,859
2024	776,128
2025	773,859
2026	775,976
2027-2031	3,868,298
2032-2034	2,319,577
	<hr/>
Total	10,090,973
Less amount representing interest	<hr/> (1,816,678) <hr/>
Present value of minimum lease payments	<hr/> \$ 8,274,295 <hr/>

#### **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, 2021, totaled \$16,554. The remaining obligation totals \$205,331.

#### **Supplemental Early Retirement Program**

In February 2021, the District entered into a Supplemental Early Retirement Agreement with 93 eligible employees during the year totaling \$6,297,861 to be paid out over the next five years at \$1,259,572 per year. The remaining balance at June 30, 2021, was \$6,297,861.

#### **Compensated Absences**

Compensated absences (unpaid employee vacation) for the District at June 30, 2021, amounted to \$1,357,501.

## 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, 2021, the obligation was \$662,213.

## Note 11 - Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2021, 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	\$ 159,161,967	\$ 75,893,290	\$ 12,774,996	\$ 20,460,881
Medicare Premium Payment (MPP) Program	2,271,456	-	-	270,715
Total	<u>\$ 161,433,423</u>	<u>\$ 75,893,290</u>	<u>\$ 12,774,996</u>	<u>\$ 20,731,596</u>

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 June 30, 2020, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	881
Active employees	<u>3,209</u>
Total	<u><u>4,090</u></u>

### **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 five years of employment and enrollment in CalSTRS 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 \$143 per month in 2021.
- b) The CalPERS administrative charge, which is currently 0.24 percent of premiums.

Payments are made by MCS 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 MCS, including dental, vision or life insurance coverage.

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.

### **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, 2021, the District paid \$3,131,281 in benefits which are reflected as deferred outflows of resources for contributions subsequent to the measurement date of June 30, 2020 and consisted of \$2,099,922 in employer paid premiums and a credit for the implicit rate subsidy of \$1,031,359.

### **Total OPEB Liability of the District**

The District's total OPEB liability of \$159,161,967 was measured and valued as of June 30, 2020.

### Actuarial Assumptions

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
Discount rate	2.21 percent
Healthcare cost trend rates	5.00 percent for 2021 and thereafter

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

Mortality rates are taken from the 2017 CalPERS OPEB Assumptions Model (for classified, confidential and classified management employees). For certificated and certificated management employees, mortality is taken from the 2020 valuation of Cal STRS.

The actuarial assumptions used in the June 30, 2020 valuation were selected by the District in accordance with the requirements of GASB 75. These assumptions, based on the actuary's knowledge and experience, are reasonable and appropriate for purposes of determining OPEB costs under GASB 75.

### Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance, June 30, 2019	<u>\$ 70,012,051</u>
Service cost	2,242,549
Interest	2,400,097
Changes of benefit terms	7,588,746
Differences between expected and actual experience	5,221,848
Changes of assumptions or other inputs	74,572,350
Benefit payments*	<u>(2,875,674)</u>
Net change in total OPEB liability	<u>89,149,916</u>
Balance, June 30, 2020	<u><u>\$ 159,161,967</u></u>

\* Includes implicit subsidy of \$1,372,711.

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

Changes of Assumptions - The plan discount rate assumption was changed from 3.50 percent to 2.21 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 (1.21%)	\$ 231,206,247
Current discount rate (2.21%)	159,161,967
1% increase (3.21%)	117,800,131

### 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%)	\$ 117,903,159
Current healthcare cost trend rate (5%)	159,161,967
1% increase (6%)	229,048,715

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

For the year ended June 30, 2021, the District recognized OPEB expense of \$20,520,022. At June 30, 2021, 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	\$ 3,131,281	\$ -
Differences between expected and actual experience	4,600,199	6,278,124
Changes of assumptions	68,161,810	6,496,872
Total	<u>\$ 75,893,290</u>	<u>\$ 12,774,996</u>

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/(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
2022	\$ 8,229,489
2023	8,229,489
2024	8,229,489
2025	8,229,489
2026	8,229,489
Thereafter	18,839,568
Total	<u>\$ 59,987,013</u>

### 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, 2019, 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, 2021, the District reported a liability of \$2,271,456 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. 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, 2020 and June 30, 2019, respectively, was 0.5373 percent and 0.5360, resulting in a net decrease in the proportionate share of 0.0013 percent.

For the year ended June 30, 2021, the District recognized OPEB expense of \$270,715.

### Actuarial Methods and Assumptions

The June 30, 2020 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2019, and rolling forward the total OPEB liability to June 30, 2020, using the assumptions listed in the following table:

Measurement Date	June 30, 2020	June 30, 2019
Valuation Date	June 30, 2019	June 30, 2018
Experience Study	June 30, 2014 through June 30, 2018	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	2.21%	3.50%
Medicare Part A Premium Cost Trend Rate	4.50%	3.70%
Medicare Part B Premium Cost Trend Rate	5.40%	4.10%

For the valuation as of June 30, 2019, 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-2019) 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 294 or an average of 0.18 percent of the potentially eligible population (159,339).

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, 2020, 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, 2020, is 2.21 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 2.21 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2020, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate decreased 1.29 percent from 3.50 percent as of June 30, 2019.

#### 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 (1.21%)	\$ 2,511,727
Current discount rate (2.21%)	2,271,456
1% increase (3.21%)	2,067,003

#### 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 (3.50% Part A and 4.40% Part B)	\$ 2,059,606
Current Medicare costs trend rate (4.50% Part A and 5.40% Part B)	2,271,456
1% increase (5.50% Part A and 6.40% Part B)	2,515,334

**Note 12 - Fund Balances**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 150,000	\$ -	\$ 500	\$ 150,500
Stores inventories	781,692	-	488,101	1,269,793
Prepaid expenditures	3,016,351	47,520	-	3,063,871
Total nonspendable	3,948,043	47,520	488,601	4,484,164
<b>Restricted</b>				
Legally restricted programs	24,377,995	-	470,616	24,848,611
Food service	-	-	8,282,767	8,282,767
Childcare programs	-	-	1,344,744	1,344,744
Student activities	-	-	3,023,285	3,023,285
Capital projects	-	64,500,564	1,579,053	66,079,617
Debt services	-	-	31,735,890	31,735,890
Total restricted	24,377,995	64,500,564	46,436,355	135,314,914
<b>Committed</b>				
Deferred maintenance program	-	-	136,965	136,965
Curriculum delivery reserve	5,472,852	-	-	5,472,852
Total committed	5,472,852	-	136,965	5,609,817
<b>Assigned</b>				
LCAP supplemental and concentrations	35,128,462	-	-	35,128,462
Carryover obligations	2,195,643	-	-	2,195,643
Retiree medical benefits	678,708	-	-	678,708
County cash FMV adjustment	277,535	-	-	277,535
Capital projects/maintenance	-	-	31,252,354	31,252,354
Total assigned	38,280,348	-	31,252,354	69,532,702
<b>Unassigned</b>				
Reserve for economic uncertainties	26,204,169	-	-	26,204,169
Remaining unassigned	44,079,923	-	-	44,079,923
Total unassigned	70,284,092	-	-	70,284,092
Total	<u>\$ 142,363,330</u>	<u>\$ 64,548,084</u>	<u>\$ 78,314,275</u>	<u>\$ 285,225,689</u>

## **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, 2019 to June 30, 2021:

	Dental*	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 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	<u>(2,746,809)</u>	<u>(2,277,552)</u>	<u>(2,536,952)</u>	<u>(7,561,313)</u>
Liability Balance, June 30, 2020	125,000	9,421,634	460,000	10,006,634
Claims and changes in estimates	3,094,627	975,672	1,216,225	5,286,524
Claims payments	<u>(3,089,627)</u>	<u>(1,810,918)</u>	<u>(1,176,225)</u>	<u>(6,076,770)</u>
Liability Balance, June 30, 2021	<u><u>\$ 130,000</u></u>	<u><u>\$ 8,586,388</u></u>	<u><u>\$ 500,000</u></u>	<u><u>\$ 9,216,388</u></u>

\* 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, 2021, 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	\$ 298,099,316	\$ 82,454,675	\$ 23,521,927	\$ 39,305,404
CalPERS	<u>139,288,207</u>	<u>26,662,945</u>	<u>935,240</u>	<u>28,872,873</u>
Total	<u><u>\$ 437,387,523</u></u>	<u><u>\$ 109,117,620</u></u>	<u><u>\$ 24,457,167</u></u>	<u><u>\$ 68,178,277</u></u>

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, 2019, 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, 2021, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	16.15%	16.15%
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, 2021, are presented above and the District's total contributions were \$27,897,367.

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

At June 30, 2021, 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	\$ 298,099,316
State's proportionate share of the net pension liability	<u>153,670,233</u>
Total	<u><u>\$ 451,769,549</u></u>

The net pension liability was measured as of June 30, 2020. 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, 2020 and June 30, 2019, respectively was 0.3076 percent and 0.3037 percent, resulting in a net increase in the proportionate share of 0.0039 percent.

For the year ended June 30, 2021, the District recognized pension expense of \$39,305,404. In addition, the District recognized pension expense and revenue of \$21,527,692 for support provided by the State. At June 30, 2021, 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	\$ 27,897,367	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	17,881,270	15,115,015
Differences between projected and actual earnings on pension plan investments	7,081,124	-
Differences between expected and actual experience in the measurement of the total pension liability	526,009	8,406,912
Changes of assumptions	29,068,905	-
Total	<u>\$ 82,454,675</u>	<u>\$ 23,521,927</u>

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 outflows 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 Outflows of Resources
2022	\$ (4,320,859)
2023	2,412,668
2024	4,813,543
2025	4,175,772
Total	<u>\$ 7,081,124</u>



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
2022	\$ 6,894,920
2023	4,844,041
2024	11,656,777
2025	1,243,439
2026	(1,002,963)
Thereafter	318,043
Total	<u>\$ 23,954,257</u>

#### 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, 2019, and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
Experience study	July 1, 2015 through June 30, 2018
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-2019) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS 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 January 2020 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, 2020, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42%	4.8%
Real estate	15%	3.6%
Private equity	13%	6.3%
Fixed income	12%	1.3%
Risk mitigating strategies	10%	1.8%
Inflation sensitive	6%	3.3%
Cash/liquidity	2%	(0.4%)

#### 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%)	\$ 450,386,542
Current discount rate (7.10%)	298,099,316
1% increase (8.10%)	172,364,766

## 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, 2019, 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, 2021, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	20.70%	20.70%

## 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, 2021, are presented above and the total District contributions were \$13,966,471.

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

As of June 30, 2021, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$139,288,207. The net pension liability was measured as of June 30, 2020. 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, 2020 and June 30, 2019, respectively was 0.4540 percent and 0.4320 percent, resulting in a net increase in the proportionate share of 0.0220 percent.

For the year ended June 30, 2021, the District recognized pension expense of \$28,872,873. At June 30, 2021, 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	\$ 13,966,471	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,377,894	935,240
Differences between projected and actual earnings on pension plan investments	2,899,537	-
Differences between expected and actual experience in the measurement of the total pension liability	6,908,268	-
Changes of assumptions	510,775	-
	<u>26,662,945</u>	<u>935,240</u>
Total	<u>\$ 26,662,945</u>	<u>\$ 935,240</u>

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 outflows 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 Outflows of Resources
2022	\$ (1,085,066)
2023	967,841
2024	1,682,267
2025	1,334,495
Total	<u>\$ 2,899,537</u>

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
2022	\$ 5,678,505
2023	2,041,240
2024	1,048,168
2025	93,784
Total	<u>\$ 8,861,697</u>

### 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, 2019, and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
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%)	\$ 200,252,197
Current discount rate (7.15%)	139,288,207
1% increase (8.15%)	88,691,154

### **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 \$17,390,907 (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.

## **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, 2021.

### **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, 2021.

### **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, 2021, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Wilson cafe and portable classroom replacement	\$ 1,206,815	December 2021
Bret Harte fire reconstruction	464,586	October 2021
Davis High - 5 room classroom building	276,065	September 2021
Transportation shop and site renovations	107,779	August 2021
La Loma - parking and streetscape improvements	3,913,907	October 2021
Davis electrical upgrade	787,050	March 2022
Lakewood - single point of entry	518,851	October 2021
Bret Harte - re-roofing	61,419	September 2021
Mark Twain - re-roofing	50,692	August 2021
Sonoma - re-roofing	82,375	September 2021
Martone - paving and slurry	429,949	September 2021
Rose Ave. - paving and slurry	310,668	September 2021
Enochs - paving and slurry	599,768	August 2021
Beard - exterior painting	61,500	August 2021
Davis - exterior painting	72,800	August 2021
El Vista - exterior painting	162,500	August 2021
Sonoma - exterior painting	53,000	August 2021
Fremont - exterior painting	115,000	August 2021
Total	<u>\$ 9,274,724</u>	

### 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 - Restatement of Prior Year Net Position and Fund Balance**

As of July 1, 2020, the Modesto City Schools adopted GASB Statement No. 84, *Fiduciary Activities* (GASB 84). As a result of the implementation of GASB 84, the District has reclassified its associated student body and scholarship trust activity previously reported as fiduciary funds to a governmental fund – Student Activity Fund. The following table describes the effects of the implementation on beginning fund balance/net position.

	Non-Major Governmental Funds	Total Governmental Funds
	<u>                    </u>	<u>                    </u>
Beginning fund balance previously reported at June 30, 2020	\$ 49,512,356	\$ 193,786,332
Reclassification of student activity funds from agency funds to a special revenue fund	<u>3,242,729</u>	<u>3,242,729</u>
Fund Balance - Beginning as Restated at July 1, 2020	<u><u>\$ 52,755,085</u></u>	<u><u>\$ 197,029,061</u></u>
 Governmental Activities Financial Statements		
Beginning Net Position Governmental Activities previously reported at June 30, 2020		\$ 11,034,786
Reclassification of student activity funds from agency funds to a special revenue fund		<u>3,242,729</u>
Net Position as Restated July 1, 2020		<u><u>\$ 14,277,515</u></u>



Required Supplementary Information  
June 30, 2021

## Modesto City Schools

**Modesto City Schools**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended June 30, 2021**

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local Control Funding Formula	\$ 306,190,473	\$ 323,896,073	\$ 326,528,716	\$ 2,632,643
Federal sources	20,891,436	105,281,893	57,573,621	(47,708,272)
Other State sources	37,290,326	46,253,953	70,635,779	24,381,826
Other local sources	5,410,519	7,497,491	6,346,149	(1,151,342)
<b>Total revenues <sup>1</sup></b>	<b>369,782,754</b>	<b>482,929,410</b>	<b>461,084,265</b>	<b>(21,845,145)</b>
<b>Expenditures</b>				
Current				
Certificated salaries	170,835,266	175,962,425	178,366,729	(2,404,304)
Classified salaries	62,057,564	65,017,417	65,235,996	(218,579)
Employee benefits	88,512,480	88,903,741	89,326,624	(422,883)
Books and supplies	21,237,514	46,351,938	36,759,041	9,592,897
Services and operating expenditures	39,383,106	95,797,768	41,866,308	53,931,460
Other outgo	7,115,559	8,209,611	8,466,437	(256,826)
Capital outlay	3,133,461	5,912,372	4,036,216	1,876,156
Debt service				
Debt service - principal	1,960,475	2,233,562	2,469,850	(236,288)
Debt service - interest and other	-	213,360	476,302	(262,942)
<b>Total expenditures <sup>1</sup></b>	<b>394,235,425</b>	<b>488,602,194</b>	<b>427,003,503</b>	<b>61,598,691</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(24,452,671)</b>	<b>(5,672,784)</b>	<b>34,080,762</b>	<b>39,753,546</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	5,977,899	5,977,899	458,020	(5,519,879)
Transfers out	(8,290,680)	(9,634,398)	(5,748,219)	3,886,179
<b>Net financing sources (uses)</b>	<b>(2,312,781)</b>	<b>(3,656,499)</b>	<b>(5,290,199)</b>	<b>(1,633,700)</b>
<b>Net Change in Fund Balances</b>	<b>(26,765,452)</b>	<b>(9,329,283)</b>	<b>28,790,563</b>	<b>38,119,846</b>
<b>Fund Balance - Beginning</b>	<b>113,572,767</b>	<b>113,572,767</b>	<b>113,572,767</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 86,807,315</b>	<b>\$ 104,243,484</b>	<b>\$ 142,363,330</b>	<b>\$ 38,119,846</b>

<sup>1</sup> 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.

**Modesto City Schools**  
Schedule of Changes in the District's Total OPEB Liability and Related Ratios  
Year Ended June 30, 2021

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 2,242,549	\$ 2,014,646	\$ 2,584,557	\$ 2,935,337
Interest	2,400,097	2,481,374	2,608,334	2,220,549
Changes of benefit terms	7,588,746	-	-	-
Difference between expected and actual experience	5,221,848	-	(8,442,996)	-
Changes of assumptions	74,572,350	2,975,805	(2,293,453)	(7,217,553)
Benefit payments	(2,875,674)	(3,155,922)	(3,237,556)	(2,750,171)
Net change in total OPEB liability	89,149,916	4,315,903	(8,781,114)	(4,811,838)
Total OPEB Liability - Beginning	70,012,051	65,696,148	74,477,262	79,289,100
Total OPEB Liability - Ending	<u>\$ 159,161,967</u>	<u>\$ 70,012,051</u>	<u>\$ 65,696,148</u>	<u>\$ 74,477,262</u>
Covered Payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Total OPEB Liability as a Percentage of Covered Payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup> 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.

**Modesto City Schools**  
Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2021

Year ended June 30,	2021	2020	2019	2018
Proportion of the net OPEB liability	0.5360%	0.5373%	0.5538%	0.5220%
Proportionate share of the net OPEB liability	\$ 2,271,456	\$ 2,000,741	\$2,119,918	\$2,195,895
Covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup> 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.

**Modesto City Schools**  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>CalSTRS</b>				
Proportion of the net pension liability	<u>0.3076%</u>	<u>0.3037%</u>	<u>0.3086%</u>	<u>0.2883%</u>
Proportionate share of the net pension liability	<u>\$ 298,099,316</u>	<u>\$ 274,295,402</u>	<u>\$283,590,456</u>	<u>\$266,623,151</u>
State's proportionate share of the net pension liability	<u>153,670,233</u>	<u>149,646,454</u>	<u>162,368,800</u>	<u>157,732,004</u>
Total	<u><u>\$ 451,769,549</u></u>	<u><u>\$ 423,941,856</u></u>	<u><u>\$ 445,959,256</u></u>	<u><u>\$ 424,355,155</u></u>
Covered payroll	<u>\$ 168,599,023</u>	<u>\$ 165,859,496</u>	<u>\$ 166,770,859</u>	<u>\$ 155,167,170</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>176.81%</u>	<u>165.38%</u>	<u>170.05%</u>	<u>171.83%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>73%</u>	<u>71%</u>	<u>69%</u>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>CalPERS</b>				
Proportion of the net pension liability	<u>0.4540%</u>	<u>0.4320%</u>	<u>0.4428%</u>	<u>0.4212%</u>
Proportionate share of the net pension liability	<u>\$ 139,288,207</u>	<u>\$ 125,889,022</u>	<u>\$ 118,053,195</u>	<u>\$ 100,549,464</u>
Covered payroll	<u>\$ 66,369,434</u>	<u>\$ 62,903,388</u>	<u>\$ 60,374,219</u>	<u>\$ 54,541,489</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	<u>209.87%</u>	<u>200.13%</u>	<u>195.54%</u>	<u>184.35%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>70%</u>	<u>71%</u>	<u>72%</u>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

**Modesto City Schools**  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2021

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

**Modesto City Schools**  
Schedule of the District Contributions  
Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>CalSTRS</b>				
Contractually required contribution	\$ 27,897,367	\$ 28,830,433	\$27,001,926	\$24,065,035
Less contributions in relation to the contractually required contribution	<u>27,897,367</u>	<u>28,830,433</u>	<u>27,001,926</u>	<u>24,065,035</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 172,739,115</u>	<u>\$ 168,599,023</u>	<u>\$ 165,859,496</u>	<u>\$ 166,770,859</u>
Contributions as a percentage of covered payroll	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>	<u>14.43%</u>
<b>CalPERS</b>				
Contractually required contribution	\$ 13,966,471	\$ 13,088,716	\$11,361,610	\$9,376,720
Less contributions in relation to the contractually required contribution	<u>13,966,471</u>	<u>13,088,716</u>	<u>11,361,610</u>	<u>9,376,720</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 67,470,874</u>	<u>\$ 66,369,434</u>	<u>\$ 62,903,388</u>	<u>\$ 60,374,219</u>
Contributions as a percentage of covered payroll	<u>20.700%</u>	<u>19.721%</u>	<u>18.0620%</u>	<u>15.5310%</u>

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



Modesto City Schools  
Schedule of the District Contributions  
Year Ended June 30, 2021

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

*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 discount rate assumption was changed from 3.50 percent to 2.21 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 3.50 percent to 2.21 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, 2021

## Modesto City Schools

**Modesto City Schools**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/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	\$ 5,697,979
Special Education Grants to States - Mental Health	84.027	14468	327,766
Special Education Grants to States - Private School ISP	84.027	10115	7,817
Subtotal			6,033,562
Special Education Grants to States - Alternate Dispute Resolution	84.173	13007	8,828
Special Education Grants to States - Preschool Grants	84.173	13430	179,982
Subtotal			188,810
Subtotal Special Education Cluster			6,222,372
Adult Education - Basic Grants to States: Basic & ESL	84.002	14508	47,281
Adult Education - Basic Grants to States: Secondary Education	84.002	13978	9,478
Subtotal			56,759
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER)	84.425D	15536	8,143,718
COVID-19 Elementary and Secondary School Emergency Relief Fund II (ESSER II)	84.425D	15547	381,519
American Rescue Plan: Elementary and Secondary School Emergency Relief Fund III (ESSER III)	84.425U	15559	53,336
COVID-19 Governor's Emergency Education Relief Fund (GEER)	84.425C	15517	1,972,988
Subtotal			10,551,561

[1] Federal Financial Assistance Listing/Federal CFDA Number not available

[2] Pass-Through Entity Identifying Number not available, Grant I.D. Number RSIG18CA

**Modesto City Schools**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
Title I Grants to Local Educational Agencies - Basic	84.010	14329	9,347,619
Title I Grants to Local Educational Agencies - ESSA: School Improvement Funding for LEAs	84.010	15438	<u>335,365</u>
Subtotal			<u>9,682,984</u>
English Language Acquisition State Grants -IEP	84.365	15146	(50,047)
English Language Acquisition State Grants - LEP	84.365	14346	<u>101,752</u>
Subtotal			<u>51,705</u>
Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	1,051,819
Student Support and Academic Enrichment Program	84.424	15396	548,703
Twenty-First Century Community Learning Centers	84.287	14349	921,967
Career and Technical Education - Basic Grants to States	84.048	14894	467,141
Special Education-Grants for Infants and Families	84.181	23761	<u>91,745</u>
Total U.S. Department of Education			<u>29,646,756</u>
U.S. Department of the Treasury			
Passed Through California Department of Education			
COVID-19, Coronavirus Relief Fund (CRF): Learning Loss Mitigation	21.019	25516	<u>27,946,937</u>
Total U.S. Department of the Treasury			<u>27,946,937</u>

[1] Federal Financial Assistance Listing/Federal CFDA Number not available

[2] Pass-Through Entity Identifying Number not available, Grant I.D. Number RSIG18CA

**Modesto City Schools**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed Through California Department of Education			
Head Start Cluster			
Head Start	93.600	10016	3,944,282
Head Start - Training Grant	93.600	10016	22,617
Head Start - Early Head Start	93.600	15291	540,875
Total Head Start Cluster			4,507,774
Strategy 1: School-Based Surveillance - Youth Risk Behavior Survey Participation	93.079	01116	500
Child Development: Coronavirus Response and Relief Supplemental Appropriations			
Act One-Time Stipend	93.575	15555	89,715
Child Care Manadatory and Matching Funds of the Child Care and Development Fund	93.596	13603	391,112
Subtotal			481,327
Passed Through California Department of Social Services:			
RSI Grant	[1]	[2]	36,187
Total U.S. Department of Health and Human Services			5,025,288

[1] Federal Financial Assistance Listing/Federal CFDA Number not available

[2] Pass-Through Entity Identifying Number not available, Grant I.D. Number RSIG18CA

Modesto City Schools  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program - Meal Supplements	10.555	13396	139,686
National School Lunch Program - Commodity Supplemental Food	10.555	13391	<u>1,129,465</u>
Subtotal			<u>1,269,151</u>
National School Lunch Program - Summer Food Program	10.559	13004	<u>11,161,734</u>
Total Child Nutrition Cluster			<u>12,430,885</u>
Child and Adult Care Food Program	10.558	13393	3,856,922
Child and Adult Care Food Program - Cash in Lieu of Commodities	10.558	13389	<u>182,012</u>
Subtotal			<u>4,038,934</u>
Total U.S. Department of Agriculture			<u>16,469,819</u>
Total Federal Financial Assistance			<u><u>\$ 79,088,800</u></u>

[1] Federal Financial Assistance Listing/Federal CFDA Number not available

[2] Pass-Through Entity Identifying Number not available, Grant I.D. Number RSIG18CA



## **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
Charlene G. West, Ph.D.	President	2022
Adolfo Lopez	Vice President	2022
Chad Brown	Member	2022
John Ervin III	Member	2024
Abel Maestas	Member	2024
Cindy Marks	Member	2022
Homero Mejia	Member	2024

## **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

**Modesto City Schools**  
Schedule of Instructional Time  
Year Ended June 30, 2021

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Grade Level	Number of Actual Days		Number of Days Credited Form J-13A*	Total Days Offered	Status
	Traditional Calendar	Multitrack Calendar			
Kindergarten	180	N/A	-	180	Complied
Grades 1 - 3					
Grade 1	180	N/A	-	180	Complied
Grade 2	180	N/A	-	180	Complied
Grade 3	180	N/A	-	180	Complied
Grades 4 - 8					
Grade 4	180	N/A	-	180	Complied
Grade 5	180	N/A	-	180	Complied
Grade 6	180	N/A	-	180	Complied
Grade 7	180	N/A	-	180	Complied
Grade 8	180	N/A	-	180	Complied
Grades 9 - 12					
Grade 9	180	N/A	-	180	Complied
Grade 10	180	N/A	-	180	Complied
Grade 11	180	N/A	-	180	Complied
Grade 12	180	N/A	-	180	Complied

\* The District received an approved J-13A for no days.

**Modesto City Schools**  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
Year Ended June 30, 2021

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

	<u>Student Activities Fund</u>
Fund Balance	
Balance, June 30, 2021, Unaudited Actuals	\$ 2,631,528
Increase in deposits and investments	<u>391,757</u>
Balance, June 30, 2021, Audited Financial Statements	<u><u>\$ 3,023,285</u></u>

**Modesto City Schools**  
Schedule of Financial Trends and Analysis  
Year Ended June 30, 2021

	(Budget) 2022 <sup>1</sup>	2021	2020	2019
General Fund <sup>3</sup>				
Revenues	\$ 428,143,221	\$ 461,071,469	\$ 403,853,873	\$ 407,387,858
Other sources	2,775,096	3,981,200	10,714,618	9,230,991
Total Revenues and Other Sources	<u>430,918,317</u>	<u>465,052,669</u>	<u>414,568,491</u>	<u>416,618,849</u>
Expenditures	413,042,501	427,003,503	389,568,484	398,151,550
Other uses and transfers out	<u>9,764,500</u>	<u>9,732,656</u>	<u>8,693,673</u>	<u>8,638,200</u>
Total Expenditures and Other Uses	<u>422,807,001</u>	<u>436,736,159</u>	<u>398,262,157</u>	<u>406,789,750</u>
Increase in Fund Balance	<u>8,111,316</u>	<u>28,316,510</u>	<u>16,306,334</u>	<u>9,829,099</u>
Ending Fund Balance	<u>\$ 144,323,086</u>	<u>\$ 136,211,770</u>	<u>\$ 107,895,260</u>	<u>\$ 91,588,926</u>
Available Reserves <sup>2</sup>	<u>\$ 69,653,472</u>	<u>\$ 70,284,092</u>	<u>\$ 64,273,997</u>	<u>\$ 63,136,534</u>
Available Reserves as a Percentage of Total Outgo	<u>16.47%</u>	<u>16.09%</u>	<u>16.14%</u>	<u>15.50%</u>
Long-Term Liabilities	<u>Not Available</u>	<u>\$ 814,616,817</u>	<u>\$ 629,517,066</u>	<u>\$ 621,864,824</u>
Average Daily Attendance at P-2	<u>27,873</u>	<u>28,150</u>	<u>28,150</u>	<u>28,325</u>

The General Fund balance has increased by \$44,622,844 over the past two years. The fiscal year 2021-2022 budget projects an increase of \$8,111,316 (6.0 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 each of the past three years and anticipates incurring an operating surplus during the 2021-2022 fiscal year. Total long-term liabilities have increased by \$192,751,993 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 175 over the past two years. A decline of 277 ADA is anticipated during fiscal year 2021-2022.

<sup>1</sup> Budget 2022 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

<sup>3</sup> 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.

Modesto City Schools  
Schedule of Charter Schools  
Year Ended June 30, 2021

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Name of Charter School	Charter Number	Included in Audit Report
Aspire Vanguard College Preparatory Academy	1125	No
Aspire University Charter	1963	No
Connecting Waters Charter School - Cehtral Valley	1973	No

**Modesto City Schools**  
**Combining Balance Sheet – Non-Major Governmental Funds**  
**June 30, 2021**

	Student Activities Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>Assets</b>											
Deposits and investments	\$ 3,023,285	\$ 221,168	\$ 980,936	\$ 9,094,637	\$ 1,699,946	\$ 1,598,374	\$ -	\$ 30,805,548	\$ 22,665,355	\$ 9,070,535	\$ 79,159,784
Receivables	-	72,980	1,442,637	884,331	-	100,856	1,672,591	-	-	-	4,173,395
Due from other funds	-	268,535	9,856	4,078	-	-	7,066	503,629	-	-	793,164
Stores inventories	-	-	-	488,101	-	-	-	-	-	-	488,101
<b>Total assets</b>	<b>\$ 3,023,285</b>	<b>\$ 562,683</b>	<b>\$ 2,433,429</b>	<b>\$ 10,471,147</b>	<b>\$ 1,699,946</b>	<b>\$ 1,699,230</b>	<b>\$ 1,679,657</b>	<b>\$ 31,309,177</b>	<b>\$ 22,665,355</b>	<b>\$ 9,070,535</b>	<b>\$ 84,614,444</b>
<b>Liabilities and Fund Balances</b>											
<b>Liabilities</b>											
Overdrafts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,531,318	\$ -	\$ -	\$ -	\$ 1,531,318
Accounts payable	-	91,903	655,280	570,806	1,562,972	120,177	148,339	27,594	-	-	3,177,071
Due to other funds	-	164	370,170	1,087,371	9	-	-	29,229	-	-	1,486,943
Unearned revenue	-	-	63,235	41,602	-	-	-	-	-	-	104,837
<b>Total liabilities</b>	<b>-</b>	<b>92,067</b>	<b>1,088,685</b>	<b>1,699,779</b>	<b>1,562,981</b>	<b>120,177</b>	<b>1,679,657</b>	<b>56,823</b>	<b>-</b>	<b>-</b>	<b>6,300,169</b>
<b>Fund Balances</b>											
Nonspendable	-	-	-	488,601	-	-	-	-	-	-	488,601
Restricted	3,023,285	470,616	1,344,744	8,282,767	-	1,579,053	-	-	22,665,355	9,070,535	46,436,355
Committed	-	-	-	-	136,965	-	-	-	-	-	136,965
Assigned	-	-	-	-	-	-	-	31,252,354	-	-	31,252,354
<b>Total fund balances</b>	<b>3,023,285</b>	<b>470,616</b>	<b>1,344,744</b>	<b>8,771,368</b>	<b>136,965</b>	<b>1,579,053</b>	<b>-</b>	<b>31,252,354</b>	<b>22,665,355</b>	<b>9,070,535</b>	<b>78,314,275</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,023,285</b>	<b>\$ 562,683</b>	<b>\$ 2,433,429</b>	<b>\$ 10,471,147</b>	<b>\$ 1,699,946</b>	<b>\$ 1,699,230</b>	<b>\$ 1,679,657</b>	<b>\$ 31,309,177</b>	<b>\$ 22,665,355</b>	<b>\$ 9,070,535</b>	<b>\$ 84,614,444</b>

# Modesto City Schools

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

Year Ended June 30, 2021

	Student Activities Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>Revenues</b>											
Local Control Funding Formula	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
Federal sources	-	56,759	5,194,907	16,469,819	-	-	-	-	-	862,462	22,583,947
Other State sources	-	73,533	6,598,206	1,949,697	-	-	1,672,591	-	229,135	-	10,523,162
Other local sources	602,894	637,188	133,859	82,715	(14,096)	1,094,296	(7,066)	4,046,841	15,737,952	308,522	22,623,105
<b>Total revenues</b>	<b>602,894</b>	<b>767,480</b>	<b>11,926,972</b>	<b>18,502,231</b>	<b>1,985,904</b>	<b>1,094,296</b>	<b>1,665,525</b>	<b>4,046,841</b>	<b>15,967,087</b>	<b>1,170,984</b>	<b>57,730,214</b>
<b>Expenditures</b>											
<b>Current</b>											
Instruction	-	598,799	3,614,998	-	-	-	-	-	-	-	4,213,797
Instruction-related activities											
Supervision of instruction	-	59,797	2,631,847	-	-	-	-	-	-	-	2,691,644
School site administration	-	227,077	-	-	-	-	-	-	-	-	227,077
Pupil services											
Food services	-	-	-	13,132,545	-	-	-	-	-	-	13,132,545
All other pupil services	-	18,048	52,811	-	-	-	-	-	-	-	70,859
Administration											
All other administration	-	-	642,983	686,661	-	6,890	-	-	-	-	1,336,534
Plant services	-	15,417	328,342	772,145	4,943,601	372	-	1,979	-	-	6,061,856
Ancillary services	822,338	-	-	-	-	-	-	-	-	-	822,338
Community services	-	-	4,115,575	-	-	-	-	-	-	-	4,115,575
Facility acquisition and construction	-	-	-	-	1,531,196	956,009	1,672,591	5,873,533	-	-	10,033,329
Debt service											
Principal	-	-	-	-	-	16,554	-	-	15,200,000	-	15,216,554
Interest and other	-	-	-	-	-	-	-	291,141	1,002,000	862,462	2,155,603
<b>Total expenditures</b>	<b>822,338</b>	<b>919,138</b>	<b>11,386,556</b>	<b>14,591,351</b>	<b>6,474,797</b>	<b>979,825</b>	<b>1,672,591</b>	<b>6,166,653</b>	<b>16,202,000</b>	<b>862,462</b>	<b>60,077,711</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(219,444)</b>	<b>(151,658)</b>	<b>540,416</b>	<b>3,910,880</b>	<b>(4,488,893)</b>	<b>114,471</b>	<b>(7,066)</b>	<b>(2,119,812)</b>	<b>(234,913)</b>	<b>308,522</b>	<b>(2,347,497)</b>
<b>Other Financing Sources (Uses)</b>											
Transfers in	-	268,533	80,144	-	2,000,000	-	7,066	2,921,043	-	770,857	6,047,643
Premium on bond issuance	-	-	-	-	-	-	-	-	5,395,096	-	5,395,096
Transfers out	-	-	-	(392,595)	-	(182,756)	-	(250,086)	(272,340)	-	(1,097,777)
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>268,533</b>	<b>80,144</b>	<b>(392,595)</b>	<b>2,000,000</b>	<b>(182,756)</b>	<b>7,066</b>	<b>2,670,957</b>	<b>5,122,756</b>	<b>770,857</b>	<b>10,344,962</b>
<b>Net Change in Fund Balances</b>	<b>(219,444)</b>	<b>116,875</b>	<b>620,560</b>	<b>3,518,285</b>	<b>(2,488,893)</b>	<b>(68,285)</b>	<b>-</b>	<b>551,145</b>	<b>4,887,843</b>	<b>1,079,379</b>	<b>7,997,465</b>
<b>Fund Balance - Beginning, as Restated</b>	<b>3,242,729</b>	<b>353,741</b>	<b>724,184</b>	<b>5,253,083</b>	<b>2,625,858</b>	<b>1,647,338</b>	<b>-</b>	<b>30,701,209</b>	<b>17,777,512</b>	<b>7,991,156</b>	<b>70,316,810</b>
<b>Fund Balance - Ending</b>	<b>\$ 3,023,285</b>	<b>\$ 470,616</b>	<b>\$ 1,344,744</b>	<b>\$ 8,771,368</b>	<b>\$ 136,965</b>	<b>\$ 1,579,053</b>	<b>\$ -</b>	<b>\$ 31,252,354</b>	<b>\$ 22,665,355</b>	<b>\$ 9,070,535</b>	<b>\$ 78,314,275</b>

See Notes to Supplementary Information

## 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, 2021. 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, 2021, the District used food commodities totaling \$1,129,465.

#### SEFA Reconciliation

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, 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 and the unspent portion of the Child Development: Coronavirus Response and Relief Supplemental Act One-Time Stipend revenue received by the District.

Description	Federal Financial Assistance Listing/Federal CFDA Number	Amount
Total Federal Revenues reported on the financial statements		\$ 80,157,568
Federal interest subsidy	Not Available	(862,462)
Child Development: Coronavirus Response and Relief Supplemental Apportionments Act One-Time Stipend	93.575	(206,306)
Total Schedule of Expenditures of Federal Awards		<u>\$ 79,088,800</u>



#### **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 Instructional Time**

This schedule presents information on the number of instructional days offered by the District and whether the District complied with the provisions of *Education Code* Section 43504.

#### **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, 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***

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, 2021, and the related notes to the financial statements, which collectively comprise Modesto City Schools' basic financial statements and have issued our report thereon dated January 28, 2022.

**Emphasis of Matter – Change in Accounting Principle**

As discussed in Notes 1 and 17 to the financial statements, Modesto City Schools has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position and fund balance as of July 1, 2020. Our opinions are 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 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. 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' 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.

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

Fresno, California  
January 28, 2022



## **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, 2021. 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, 2021.

### **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.

The image shows a handwritten signature in black ink. The signature appears to read "Eide Bailly LLP" in a cursive, stylized font. The letters are connected, and the overall style is professional and fluid.

Fresno, California  
January 28, 2022



## 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 *2020-2021 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, 2021.

### 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 *2020-2021 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:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance and Distance Learning	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No (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
K-3 Grade Span Adjustment	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
Comprehensive School Safety Plan	Yes
District of Choice	No (see below)
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
California Clean Energy Jobs Act	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Independent Study - Course Based	No (see below)
<b>CHARTER SCHOOLS</b>	
Attendance	No (see below)
Mode of Instruction	No (see below)
Nonclassroom-Based Instruction/Independent Study	No (see below)
Determination of Funding for Nonclassroom-Based Instruction	No (see below)
Charter School Facility Grant Program	No (see below)

We did not perform procedures for Kindergarten Continuance because there were no Kindergarteners retained in 2019-2020 that were in Kindergarten in 2020-2021.

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.

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 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.

***Unmodified Opinion***

In our opinion, Modesto City Schools complied, in all material respects, with the laws and regulations of the state programs referred to above for the year ended June 30, 2021.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

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

Fresno, California  
January 28, 2022



Schedule of Findings and Questioned Costs  
June 30, 2021

# Modesto City Schools

**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	None Reported
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(a)	No

**Identification of major programs**

Name of Federal Program or Cluster	Federal Financial Assistance Listing/Federal CFDA Number
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER)	84.425D
COVID-19 Elementary and Secondary School Emergency Relief Fund II (ESSER II)	84.425D
American Rescue Plan: Elementary and Secondary School Emergency Relief Fund III (ESSER III)	84.425U
COVID-19 Governor's Emergency Education Relief Fund (GEER)	84.425C
COVID-19, Coronavirus Relief Fund (CRF): Learning Loss Mitigation	21.019
Child Nutrition Cluster	10.555, 10.559
Child and Adult Care Food Program	10.558
Dollar threshold used to distinguish between type A and type B programs	\$ 2,372,664
Auditee qualified as low-risk auditee?	Yes

**State Compliance**

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

None reported.

None reported.

None reported.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

## **Financial Statement Findings**

**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.

**Current Status**

Implemented.

**State Compliance Findings**

**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 compiling 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.

**Current Status**

Implemented.