



Financial Statements
June 30, 2023

Modesto City Schools

Independent Auditor’s Report	1
Management’s Discussion and Analysis	5
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities.....	18
Government Fund Financial Statements	
Balance Sheet – Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Proprietary Fund Financial Statements	
Statement of Net Position – Proprietary Funds.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	27
Statement of Cash Flows – Proprietary Funds.....	28
Notes to Financial Statements.....	29
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	77
Schedule of Changes in the District’s Total OPEB Liability and Related Ratios	78
Schedule of the District’s Proportionate Share of the Net OPEB Liability – MPP Program.....	80
Schedule of the District’s Proportionate Share of the Net Pension Liability	81
Schedule of the District’s Contributions	83
Notes to Required Supplementary Information	85
Supplementary Information	
Schedule of Expenditures of Federal Awards	87
Local Education Agency Organization Structure.....	90
Schedule of Average Daily Attendance.....	91
Schedule of Instructional Time	92
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	93
Schedule of Financial Trends and Analysis	94
Schedule of Charter Schools	95
Combining Balance Sheet – Non-Major Governmental Funds	96
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds.....	97
Notes to Supplementary Information.....	99
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>	101

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance 103

Independent Auditor’s Report on State Compliance..... 106

Schedule of Findings and Questioned Costs

 Summary of Auditor’s Results..... 111

 Financial Statement Findings 113

 Federal Awards Findings and Questioned Costs..... 114

 State Compliance Findings and Questioned Costs..... 115

 Summary Schedule of Prior Audit Findings..... 117



Independent Auditor's Report

To the Governing Board
Modesto City Schools
Modesto, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Modesto City Schools (the District) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Modesto City Schools, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Adoption of New Accounting Standard

As discussed in Note 1 and Note 18 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2022, to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 the District's contributions, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards, combining non-major governmental fund financial statements, and 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.

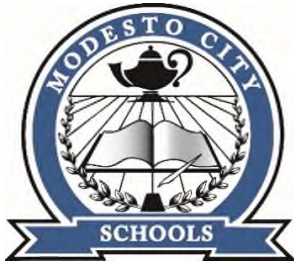
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Fresno, California
January 31, 2024



Dr. Sara Noguchi
Superintendent

Board of Education

Chad Brown
President

John Ervin III
Vice President

Jolene Daly
Board Member

Adolfo Lopez
Board Member

Abel Maestas
Board Member

Cindy Marks
Board Member

Homero Mejía
Board Member

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, 2023, with comparative information for the fiscal year ended June 30, 2022. 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, right-to-use leased assets, and right-to-use subscription IT assets), deferred outflows of resources, as well as all liabilities (including long-term liabilities), and deferred inflows of resources. Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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.



Modesto City Schools
426 Locust Street
Modesto, CA 95351
209.574.1500
www.mcs4kids.com

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 of resources, liabilities, including deferred inflows of resources 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 the governmental fund financial statements.

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

- On November 8, 2022, the Modesto City High School District passed Measure L which authorized the issuance of \$198,000,000 in bonds with bond revenue going to fund school improvements and requiring an estimated property tax levy of \$29 per \$100,000 in assessed value.
- The Arts, Music, and Instructional Materials (AMIM) Discretionary Block Grant allocated \$16 million to the District in the 2022-23 fiscal year.
- The District was also able to settle with CSEA & MTA for the 2022-23 fiscal year. Both groups agreed to a 6% ongoing raise retroactive to July 1, 2022, a \$4,000 one-time payment, and a \$100 increase to health and welfare benefits.
- Experienced an increase in enrollment at K-8 of 53 students; and decreased enrollment at the 9-12 level, a loss of 227 students.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was approximately \$184 million for the fiscal year ended June 30, 2023. Of this amount, \$173 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	
	2023	2022 As Restated
Assets		
Current and other assets	\$ 543,552,960	\$ 389,523,977
Capital assets	460,077,617	396,436,988
Right-to-use assets	437,073	237,840
Right-to-use subscription IT assets	1,496,428	1,373,422
Total assets	<u>1,005,564,078</u>	<u>787,572,227</u>
Deferred Outflows of Resources	<u>181,072,268</u>	<u>152,859,922</u>
Liabilities		
Current liabilities	78,346,599	84,443,205
Long-term liabilities	817,527,068	557,485,361
Total liabilities	<u>895,873,667</u>	<u>641,928,566</u>
Deferred Inflows of Resources	<u>106,712,297</u>	<u>227,712,117</u>
Net Position		
Net investment in capital assets	318,303,901	296,858,202
Restricted	172,673,382	87,030,672
Unrestricted (deficit)	<u>(306,926,901)</u>	<u>(313,097,408)</u>
Total net position	<u>\$ 184,050,382</u>	<u>\$ 70,791,466</u>

The \$184 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 – increased by 2% from \$(313) million compared to \$(307) 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	
	2023	2022*
Revenues		
Program revenues		
Charges for services	\$ 8,772,120	\$ 8,036,960
Operating grants and contributions	243,872,393	162,592,220
Capital grants and contributions	456	1,274,167
General revenues		
Federal and State aid not restricted	321,901,009	285,147,757
Property taxes	106,592,195	94,231,672
Other general revenues	5,520,826	(5,008,981)
Total revenues	686,658,999	546,273,795
Expenses		
Instruction-related	357,181,219	302,124,752
Pupil services	79,112,733	64,375,803
Administration	26,647,903	28,557,028
Plant services	63,822,046	51,613,550
All other services	46,636,182	37,445,059
Total expenses	573,400,083	484,116,192
Change in net position	\$ 113,258,916	\$ 62,157,603

* The revenues and expenses for fiscal year 2022 were not restated to show the effects of GASB Statement No. 96 for comparative purposes.

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$573 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$107 million because the cost was paid by those who benefited from the programs of \$9 million, by other governments and organizations who subsidized certain programs with grants and contributions of \$244 million. The District paid for the remaining "public benefit" portion of our governmental activities with \$322 million in Federal and State funds, and with \$5 million in other revenues, like interest and general entitlements, the deficit amount primarily due to the cash in county fair market value adjustment.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction-related, 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	
	2023	2022*	2023	2022*
Instruction-related	\$ 357,181,219	\$ 302,124,752	\$ (218,868,001)	\$ (217,854,354)
Pupil services	79,112,733	64,375,803	(33,812,490)	(24,407,893)
Administration	26,647,903	28,557,028	(16,148,214)	(21,444,683)
Plant services	63,822,046	51,613,550	(37,505,765)	(35,913,558)
All other services	46,636,182	37,445,059	(14,420,644)	(12,592,357)
 Total	 <u>\$ 573,400,083</u>	 <u>\$ 484,116,192</u>	 <u>\$ (320,755,114)</u>	 <u>\$ (312,212,845)</u>

* The total and net cost of services for fiscal year 2022 were not restated to show the effects of GASB Statement No. 96 for comparative purposes.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$317 million, a minimal decrease from last year (Table 4).

Table 4

Governmental Funds	Balances and Activity			
	July 1, 2022	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	June 30, 2023
General	\$ 135,454,123	\$ 619,068,156	\$ 549,563,029	\$ 204,959,250
Student Activities	3,173,607	3,456,105	3,311,495	3,318,217
Adult Education	380,330	1,169,390	1,543,572	6,148
Child Development	1,503,630	14,203,221	14,438,210	1,268,641
Cafeteria	10,661,810	27,451,473	24,330,263	13,783,020
Deferred Maintenance	803,266	5,944,520	3,708,353	3,039,433
Building	35,033,622	124,763,099	40,542,839	119,253,882
Capital Facilities	1,971,903	708,421	397,744	2,282,580
County School Facilities	36,984	456	-	37,440
Special Reserve Fund for Capital Outlay Projects	68,202,975	23,523,550	30,655,259	61,071,266
Bond Interest and Redemption	17,766,692	26,306,225	18,851,181	25,221,736
Debt Service	10,191,253	2,025,940	862,462	11,354,731
Total	<u>\$ 285,180,195</u>	<u>\$ 848,620,556</u>	<u>\$ 688,204,407</u>	<u>\$ 445,596,344</u>

The increase in the General Fund of \$70 million was primarily due to increases in Local Control Funding Formula (\$39 million), Other State Revenues (\$64 million) and decreased transfers out (\$26 million). The Capital Projects fund types increased by \$77 million primarily due to the three G.O. bond issuances totaling \$128 million and an interfund transfer in of \$15 million from the General Fund for various construction project costs and 9-12 facility improvements. The District's Debt Service funds increased almost \$9 million primarily due to the premium from the three new G.O. bond issuances totaling \$8 million. The District's Special Revenue fund types increased almost \$5 million due primarily to increased State revenues received for the Universal Meals Program in the Cafeteria Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. The final amendment to the budget was adopted on June 20, 2023. 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 \$52 million. However, revenues and other sources were \$67 million less than budgeted, and expenditures and other uses were approximately \$189 million less than budgeted, resulting in an actual increase of \$70 million.

CAPITAL ASSETS, RIGHT-TO-USE LEASED ASSETS, RIGHT-TO-USE SUBSCRIPTION IT ASSETS, AND LONG-TERM LIABILITIES

Capital Assets, Right-to-Use Leased Assets, and Right-to-Use Subscription IT Assets

At June 30, 2023, the District had \$462 million in a broad range of capital assets, right-to-use leased assets, and right-to-use subscription IT assets (net of depreciation and amortization), including land, buildings, furniture, equipment, right-to-use leased assets, and right-to-use subscription IT assets. This represents an increase of \$64 million over the prior year (Table 5).

Table 5

	Governmental Activities	
	2023	2022 As Restated
Land and construction in progress	\$ 92,748,787	\$ 58,241,257
Buildings and improvements	351,425,816	324,531,005
Equipment	15,903,014	13,664,726
Right-to-use leased assets	437,073	237,840
Right-to-use subscription IT assets	1,496,428	1,373,422
 Total	 <u>\$ 462,011,118</u>	 <u>\$ 398,048,250</u>

This year’s additions of \$79 million included on-going construction projects, various site improvements, servers, pickup trucks, a dump truck and a utility vehicle. General obligation bonds were issued to help finance on-going construction projects. More detailed information about the capital assets, right-to-use leased assets, and right-to-use subscription IT assets is presented in the Notes to Financial Statements.

Long-Term Liabilities

At the end of this year, the District had \$818 million in long-term liabilities outstanding versus \$557 million last year, an increase of 47% (Table 6).

Table 6

	Governmental Activities	
	2023	2022 As Restated
Long-Term Liabilities		
General obligation bonds	\$ 270,110,396	\$ 154,567,385
Qualified Zone Academy Bonds	16,420,000	16,420,000
Unamortized premiums	14,515,997	7,020,819
Gregori traffic mitigation	67,778	144,762
Financed purchase agreement	7,368,798	7,859,528
Leases	453,863	250,462
Subscription-based IT arrangements	293,866	445,305
Compensation benefits	662,213	662,213
Compensated absences	2,015,147	1,495,122
Claims liability	7,941,000	7,068,340
Net OPEB liability	104,904,955	122,641,940
Supplemental Early Retirement Program	3,778,717	5,038,289
Aggregate net pension liability	<u>388,994,338</u>	<u>233,871,196</u>
 Total	 <u>\$ 817,527,068</u>	 <u>\$ 557,485,361</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% of the assessed value of all taxable property within the District's boundaries.

At year-end, the District has a net pension liability of \$389 million versus \$234 million last year an increase of \$155 million. In addition, the District reported deferred outflows of resources from pension activities of \$125 million and deferred inflows of resources from pension activities of \$37 million. The net impact on the District's net position of these pension related items is \$(301) million.

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

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2022-2023 ARE NOTED BELOW

The District completed the following significant projects in 2022-2023:

- Fairview New Cafeteria Building & Site Improvements
- Shackelford New Cafeteria Building & Site Improvements
- Wilson New Cafeteria Building & Site Improvements
- Tuolumne New STEAM Building & Site Improvements
- Johansen New Fitness Center Building & Site Improvements
- Modesto New Agricultural Building & Site Improvements
- Hanshaw Middle School Science Lab Renovations
- Hanshaw Middle School New Track and Field Facilities
- Turf and Track Conversions at Downey, Johansen, Gregori
- Transportation Solar Shade Structure & Electric Bus Charging Stations
- Solar Shade Parking Canopies at Davis & Downey
- Shade Structures at Shackelford, Pearson & Downey
- Solar Outdoor Learning Environments (SOLEs) at Beard, Tuolumne, Orville Wright, Roosevelt, Downey & Gregori
- HVAC Replacements, Phase I at Johansen
- HVAC Upgrades at Various (11 Sites)
- Downey Auditorium Catwalk, Phase II
- Marquee Installation: Garrison and Kirchsien
- Play Structure Replacement at Garrison & Lakewood
- Play Structure Retrofit at Beard & Burbank
- Re-Roofing at Rose Avenue, Hanshaw, Modesto & Johansen
- Exterior Painting at Everett, Garrison & Downey
- Paving and Slurry at Enslin, Everett, Garrison, Wilson, Roosevelt & Davis

The District began the following significant projects in 2022-2023:

- El Vista New Cafeteria and Administration Buildings & Site Improvements
- Fremont New Cafeteria and Administration Buildings & Site Improvements
- Tuolumne New Multipurpose (Cafeteria/Gym) and Administration Buildings & Site Improvements
- Junior High Science Lab Renovations at La Loma & Mark Twain
- Track and Field Facilities at La Loma, Mark Twain & Roosevelt
- Solar Shade Parking Canopies at Beyer & Johansen
- HVAC Replacements at Various (13 Sites)
- Plumbing Replacements at Various (27 Sites)
- Accessibility Upgrades at Roosevelt & Modesto
- Security Camera System Upgrades at all High School Sites (8 sites)
- Fairview Parent Drop-Off Improvements
- Re-Roofing at Garrison, La Loma, Downey & Elliott
- Exterior Painting at Lakewood, Robertson Road & Johansen
- Paving/slurry at Kirschen & Lakewood

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2023-2024 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.

No additional funding was provided by the State for CalPERS or CalSTRS for the 2023-2024 fiscal year. Even with increased investment contributions in the 2022-2023 fiscal year, the CalPERS employer contribution rate still increased from 25.37% to 26.68%. CalSTRS slightly underperformed its investment rate of return assumption for the 2022-2023 fiscal year. However, the employer contribution remained flat at 19.10% for the 2023-24 fiscal year.

The health of California's General Fund peaked in the 2021-2022 fiscal year with record revenues and reserves. However, most financial experts across the state expected that revenues would begin to taper off beginning in 2022-2023 and 2023-2024 relative to 2021-2022. The tapering quickly turned into an exceptional shortfall, as the final estimated tax collections for 2022-2023 were approximately \$26 billion less than the projection used for the 2023-2024 Enacted Budget. The Legislative Analyst's Office estimates that the state faces a \$68 billion deficit over the three-year period covering 2022-2023 to 2024-2025. This could lead to funding decreases in future years that may impact the ability of the District to cover the increasing costs of pension funding, minimum wage, 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.

Modesto City Schools
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets	
Deposits and investments	\$ 497,388,381
Receivables	39,361,618
Prepaid expense	5,444,689
Stores inventories	1,358,272
Capital assets not depreciated	92,748,787
Capital assets, net of accumulated depreciation	367,328,830
Right-to-use leased assets, net of accumulated amortization	437,073
Right-to-use subscription IT assets, net of accumulated amortization	1,496,428
Total assets	1,005,564,078
Deferred Outflows of Resources	
Deferred charge on refunding	37,299
Deferred outflows of resources related to OPEB	56,198,163
Deferred outflows of resources related to pensions	124,836,806
Total deferred outflows of resources	181,072,268
Liabilities	
Accounts payable	68,713,713
Interest payable	2,042,339
Unearned revenue	7,448,547
Claims liability, dental	142,000
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	19,272,945
Long-term liabilities other than OPEB and pensions due in more than one year	304,354,830
Net other postemployment benefits liability (OPEB)	104,904,955
Aggregate net pension liabilities	388,994,338
Total liabilities	895,873,667
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	69,989,511
Deferred inflows of resources related to pensions	36,722,786
Total deferred inflows of resources	106,712,297

Modesto City Schools
Statement of Net Position
June 30, 2023

	<u>Governmental Activities</u>
Net Position	
Net investment in capital assets	318,303,901
Restricted for	
Debt service	36,576,467
Capital projects	2,320,020
Educational programs	103,487,311
Food services	13,260,011
Self insurance programs	13,711,356
Student activities	3,318,217
Unrestricted (deficit)	<u>(306,926,901)</u>
Total net position	<u>\$ 184,050,382</u>

Modesto City Schools
Statement of Activities
Year Ended June 30, 2023

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	\$ 282,987,744	\$ 2,553,120	\$ 88,569,852	\$ 456	\$ (191,864,316)
Instruction-related activities					
Supervision of instruction	29,045,811	97,814	14,934,646	-	(14,013,351)
Instructional library, media, and technology	8,785,395	15	7,281,194	-	(1,504,186)
School site administration	36,362,269	102,470	24,773,651	-	(11,486,148)
Pupil services					
Home-to-school transportation	12,052,725	36,139	4,569,690	-	(7,446,896)
Food services	24,384,637	882,694	23,012,440	-	(489,503)
All other pupil services	42,675,371	204,605	16,594,675	-	(25,876,091)
Administration					
Data processing	9,430,190	2,108	1,021,915	-	(8,406,167)
All other administration	17,217,713	38,454	9,437,212	-	(7,742,047)
Plant services	63,822,046	59,172	26,257,109	-	(37,505,765)
Ancillary services	10,676,543	-	3,636,401	-	(7,040,142)
Community services	16,205,476	8,412	17,764,719	-	1,567,655
Enterprise services	4,438,762	4,327,457	60,311	-	(50,994)
Interest on long-term liabilities	10,108,767	-	-	-	(10,108,767)
Other outgo	5,206,634	459,660	5,958,578	-	1,211,604
Total governmental activities	<u>\$ 573,400,083</u>	<u>\$ 8,772,120</u>	<u>\$ 243,872,393</u>	<u>\$ 456</u>	<u>(320,755,114)</u>
General Revenues and Subventions					
Property taxes, levied for general purposes					83,713,838
Property taxes, levied for debt service					18,544,924
Taxes levied for other specific purposes					4,333,433
Federal and State aid not restricted to specific purposes					321,901,009
Interest and investment earnings					2,209,263
Interagency revenues					421,131
Miscellaneous and unspent State entitle revenues					<u>2,890,432</u>
Subtotal, general revenues and subventions					<u>434,014,030</u>
Change in Net Position					113,258,916
Net Position - Beginning, as Restated					<u>70,791,466</u>
Net Position - Ending					<u>\$ 184,050,382</u>

Modesto City Schools
Balance Sheet – Governmental Funds
June 30, 2023

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	\$ 233,531,084	\$ 138,985,664	\$ 47,465,155	\$ 58,197,211	\$ 478,179,114
Receivables	30,685,126	-	4,722,710	3,952,003	39,359,839
Due from other funds	2,415,203	-	11,438,783	2,503,629	16,357,615
Prepaid expenditures	4,486,489	-	-	-	4,486,489
Stores inventories	835,763	-	-	522,509	1,358,272
Total assets	<u>\$ 271,953,665</u>	<u>\$ 138,985,664</u>	<u>\$ 63,626,648</u>	<u>\$ 65,175,352</u>	<u>\$ 539,741,329</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 43,538,869	\$ 19,731,611	\$ 2,555,382	\$ 2,356,275	\$ 68,182,137
Due to other funds	16,098,927	171	-	2,415,203	18,514,301
Unearned revenue	7,356,619	-	-	91,928	7,448,547
Total liabilities	<u>66,994,415</u>	<u>19,731,782</u>	<u>2,555,382</u>	<u>4,863,406</u>	<u>94,144,985</u>
Fund Balances					
Nonspendable	5,472,252	-	-	523,009	5,995,261
Restricted	102,212,522	119,253,882	-	56,749,504	278,215,908
Committed	34,541,053	-	-	3,039,433	37,580,486
Assigned	11,762,436	-	61,071,266	-	72,833,702
Unassigned	50,970,987	-	-	-	50,970,987
Total fund balances	<u>204,959,250</u>	<u>119,253,882</u>	<u>61,071,266</u>	<u>60,311,946</u>	<u>445,596,344</u>
Total liabilities and fund balances	<u>\$ 271,953,665</u>	<u>\$ 138,985,664</u>	<u>\$ 63,626,648</u>	<u>\$ 65,175,352</u>	<u>\$ 539,741,329</u>

Total Fund Balance - Governmental Funds		\$ 445,596,344
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	\$ 696,063,382	
Accumulated depreciation is	<u>(235,985,765)</u>	
Net capital assets		460,077,617
Right-to-use leased assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of right-to-use leased assets is	705,863	
Accumulated amortization is	<u>(268,790)</u>	
Net right-to-use leased assets		437,073
Right-to-use subscription IT assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of right-to-use subscription IT assets is	2,108,143	
Accumulated amortization is	<u>(611,715)</u>	
Net right-to-use subscription IT assets		1,496,428
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.		
		(2,042,339)
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 in the statement of net position.		
		13,711,356
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)	37,299	
Other postemployment benefits (OPEB)	56,198,163	
Net pension liability	<u>124,836,806</u>	
Total deferred outflows of resources		181,072,268

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)	(69,989,511)	
Net pension liability	<u>(36,722,786)</u>	
Total deferred inflows of resources		(106,712,297)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(388,994,338)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(104,904,955)
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	(254,881,871)	
Financed purchase agreement	(7,368,798)	
Leases	(453,863)	
Subscription-based IT arrangements	(293,866)	
Compensated absences (vacations)	(2,015,147)	
Special termination benefits payable	(4,508,708)	
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	<u>(46,164,522)</u>	
Total long-term liabilities		<u>(315,686,775)</u>
Total net position - governmental activities		<u>\$ 184,050,382</u>

Modesto City Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	<u>General Fund</u>	<u>Building Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>
Revenues			
Local Control Funding Formula	\$ 390,550,709	\$ -	\$ -
Federal sources	70,403,129	-	-
Other State sources	147,686,536	-	-
Other local sources	<u>8,848,601</u>	<u>(3,236,901)</u>	<u>8,240,055</u>
Total revenues	<u>617,488,975</u>	<u>(3,236,901)</u>	<u>8,240,055</u>
Expenditures			
Current			
Instruction	281,202,879	-	-
Instruction-related activities			
Supervision of instruction	26,668,736	-	-
Instructional library, media, and technology	9,107,690	-	-
School site administration	37,180,256	-	-
Pupil services			
Home-to-school transportation	11,402,940	-	-
Food services	1,190,550	-	-
All other pupil services	44,059,092	-	-
Administration			
Data processing	10,580,731	-	-
All other administration	16,157,201	-	-
Plant services	54,531,470	-	985
Ancillary services	7,618,572	-	-
Community services	11,776,036	-	-
Other outgo	5,206,634	-	-
Enterprise services	317,601	-	-
Facility acquisition and construction	11,655,874	39,656,696	30,137,776
Debt service			
Principal	1,504,610	-	-
Interest and other	<u>252,725</u>	<u>886,143</u>	<u>295,641</u>
Total expenditures	<u>530,413,597</u>	<u>40,542,839</u>	<u>30,434,402</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>87,075,378</u>	<u>(43,779,740)</u>	<u>(22,194,347)</u>
Other Financing Sources (Uses)			
Transfers in	407,277	-	15,283,495
Proceeds from sale of bonds	-	128,000,000	-
Proceeds from financed purchase agreement	127,720	-	-
Proceeds from lease	309,463	-	-
Proceeds from subscription-based IT arrangements	734,721	-	-
Premium on bond issuances	-	-	-
Transfers out	<u>(19,149,432)</u>	<u>-</u>	<u>(220,857)</u>
Net Financing Sources (Uses)	<u>(17,570,251)</u>	<u>128,000,000</u>	<u>15,062,638</u>
Net Change in Fund Balances	69,505,127	84,220,260	(7,131,709)
Fund Balance - Beginning	<u>135,454,123</u>	<u>35,033,622</u>	<u>68,202,975</u>
Fund Balance - Ending	<u>\$ 204,959,250</u>	<u>\$ 119,253,882</u>	<u>\$ 61,071,266</u>

Modesto City Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2023

	Non-Major Governmental Funds	Total Governmental Funds
Revenues		
Local Control Funding Formula	\$ 3,000,000	\$ 393,550,709
Federal sources	24,519,533	94,922,662
Other State sources	17,155,989	164,842,525
Other local sources	24,577,494	38,429,249
Total revenues	69,253,016	691,745,145
Expenditures		
Current		
Instruction	5,146,562	286,349,441
Instruction-related activities		
Supervision of instruction	3,794,926	30,463,662
Instructional library, media, and technology	-	9,107,690
School site administration	181,876	37,362,132
Pupil services		
Home-to-school transportation	-	11,402,940
Food services	22,620,190	23,810,740
All other pupil services	420,854	44,479,946
Administration		
Data processing	-	10,580,731
All other administration	1,522,735	17,679,936
Plant services	4,759,536	59,291,991
Ancillary services	3,311,495	10,930,067
Community services	4,395,302	16,171,338
Other outgo	-	5,206,634
Enterprise services	-	317,601
Facility acquisition and construction	941,900	82,392,246
Debt service		
Principal	16,281,984	17,786,594
Interest and other	3,502,643	4,937,152
Total expenditures	66,880,003	668,270,841
Excess (Deficiency) of Revenues Over Expenditures	2,373,013	23,474,304
Other Financing Sources (Uses)		
Transfers in	4,242,794	19,933,566
Proceeds from sale of bonds	-	128,000,000
Proceeds from financed purchase agreement	-	127,720
Proceeds from lease	-	309,463
Proceeds from subscription-based IT arrangements	-	734,721
Premium on bond issuances	7,769,941	7,769,941
Transfers out	(563,277)	(19,933,566)
Net Financing Sources (Uses)	11,449,458	136,941,845
Net Change in Fund Balances	13,822,471	160,416,149
Fund Balance - Beginning	46,489,475	285,180,195
Fund Balance - Ending	\$ 60,311,946	\$ 445,596,344

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, 2023

Total Net Change in Fund Balances - Governmental Funds \$ 160,416,149

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 and amortization expenses in the Statement of Activities.

This is the amount by which capital outlays exceed depreciation and amortization expenses in the period.

Depreciation and amortization expenses

\$ (14,654,887)

Capital outlays

79,198,676

Net expense adjustment

64,543,789

The District issued capital appreciation general obligations bonds.

The accretion of interest on the general obligation bonds during the current fiscal year was

(3,748,011)

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.

(580,921)

Some of the capital assets acquired this year were financed purchases. The amount of the financed purchase is reported in the governmental funds as a source of financing. On the other hand, the financed purchases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.

(127,720)

Right-to-use leased assets acquired this year were financed with leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.

(309,463)

Right-to-use subscription IT assets acquired this year were financed with Subscription-Based IT Arrangements (SBITAs). The amount financed by the SBITAs is reported in the governmental funds as a source of financing. On the other hand, the SBITAs are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.

(734,721)

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.

739,547

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, 2023

<p>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.</p>	21,071,208
<p>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.</p>	(9,235,467)
<p>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.</p>	(128,000,000)
<p>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.</p>	
Premium on issuance recognized	(7,769,941)
Premium amortization	274,763
Deferred charge on refunding amortization	(9,732)
<p>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.</p>	
General obligation bonds	16,205,000
Financed purchase agreement	618,450
Leases	106,062
Gregori traffic mitigation	76,984
Subscription-based IT arrangements	886,160
<p>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.</p>	(802,475)
<p>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.</p>	(360,745)
Change in net position of governmental activities	<u><u>\$ 113,258,916</u></u>

Modesto City Schools
 Statement of Net Position – Proprietary Funds
 June 30, 2023

	Self Insurance Internal Service Fund
Assets	
Current assets	
Deposits and investments	\$ 19,209,267
Receivables	1,779
Due from other funds	2,156,686
Prepaid expenses	958,200
Total assets	22,325,932
Liabilities	
Current liabilities	
Accounts payable	531,576
Current portion of claims liabilities	142,000
Total current liabilities	673,576
Noncurrent liabilities	
Claims liabilities	7,941,000
Total liabilities	8,614,576
Net Position	
Restricted	\$ 13,711,356

Modesto City Schools
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
Year Ended June 30, 2023

	<u>Self Insurance Internal Service Fund</u>
Operating Revenues	
Charges for services	<u>\$ 13,737,261</u>
Operating Expenses	
Payroll costs	333,533
Professional and contract services	325,461
Supplies and materials	66,442
Rental, leases and repairs	60,002
Other operating cost	<u>13,796,368</u>
Total operating expenses	<u>14,581,806</u>
Operating Loss	<u>(844,545)</u>
Nonoperating Revenues	
Fair market value adjustments	187,313
Interest income	<u>296,487</u>
Total nonoperating revenues	<u>483,800</u>
Change in Net Position	(360,745)
Total Net Position - Beginning	<u>14,072,101</u>
Total Net Position - Ending	<u><u>\$ 13,711,356</u></u>

Modesto City Schools
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2023

	Self Insurance Internal Service Fund
Operating Activities	
Cash receipts from operating funds	\$ 12,869,873
Cash payments for claims and insurance	(13,655,901)
Other operating cash payments	(519,564)
Cash payments to employees for services	(333,533)
Other operating cash receipts	240,426
Net Cash Used for Operating Activities	(1,398,699)
Investing Activities	
Interest earned and changes in the fair value of investments	483,800
Net Change in Cash and Cash Equivalents	(914,899)
Cash and Cash Equivalents, Beginning	20,124,166
Cash and Cash Equivalents, Ending	\$ 19,209,267
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating loss	\$ (844,545)
Changes in assets and liabilities	
Receivables	24,805
Accounts payable	336,582
Due from other fund	(651,767)
Due to other fund	(263,774)
Net Cash Used for Operating Activities	\$ (1,398,699)

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 \$8,497,254.

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.

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

Non-Major Governmental Funds

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

- **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).

- **County School Facilities Fund** The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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 and amortization of leased assets and subscription IT assets. 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 governmental 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 government-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, Depreciation, and Amortization

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.

The District records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2023.

The District records the value of intangible right-to-use assets based on the underlying leased asset in accordance with GASB Statement 87, *Leases*. The right-to-use intangible asset is amortized each year for the term of the contract or useful life of the underlying asset.

The District records the value of right-to-use subscription IT assets based on the underlying subscription asset in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The right-to-use subscription IT asset is amortized each year for the term of the contract or useful life of the underlying asset.

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.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources are reported as liabilities of the governmental funds.

However, compensated absences, special termination benefits, bonds, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

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 of Resources and Deferred 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.

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, for pension related items, and for OPEB related items.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported 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. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Leases

The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of the lease term, the District measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term or useful life of the underlying asset.

Subscriptions

The District recognizes a subscription liability and an intangible right-to-use subscription IT asset (subscription IT asset) in the government-wide financial statements. At the commencement of the subscription term, the District measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription liability, plus certain initial direct costs. Subsequently, the subscription IT asset is amortized on a straight-line basis over shorter of the subscription term or useful life of the underlying asset. The amortization period varies from two to five years.

Fund Balances - Governmental Funds

As of June 30, 2023, 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 \$172,673,382 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. 96

As of July 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset - an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 18 and the additional disclosures required by this standard are included in Notes 5 and 10.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2023, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 478,179,114
Proprietary funds	<u>19,209,267</u>
Total deposits and investments	<u><u>\$ 497,388,381</u></u>

Deposits and investments as of June 30, 2023, consist of the following:

Cash on hand and in banks	\$ 3,318,217
Cash with fiscal agent	2,487,733
Cash in revolving	150,500
Investments	<u>491,431,931</u>
Total deposits and investments	<u><u>\$ 497,388,381</u></u>

Policies and Practices

The District is authorized under California *Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury 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 \$479,843,869 in the Stanislaus County Treasury Investment Pool that has an average weighted maturity of 428 days. The District maintains an investment in the Local Agency Investment Fund (LAIF) that has an average 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	25 - 60 Months
Guarantee Investment Contract (GIC)	\$ 11,354,731	\$ -	\$ -	\$ 11,354,731
Local Agency Investment Fund (LAIF)	233,331	233,331	-	-
County Pool	479,843,869	-	479,843,869	-
Total	\$ 491,431,931	\$ 233,331	\$ 479,843,869	\$ 11,354,731

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% 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% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2023, \$4,692,067 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 \$11,354,731, the District has a custodial credit risk exposure of \$11,354,731 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, 2023:

Investment Type	Reported Amount	Fair Value Measurements Using*		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Guarantee Investment Contract (GIC)	\$ 11,354,731	\$ 11,354,731	\$ -	\$ -

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, 2023, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Federal Government						
Categorical aid	\$ 25,208,507	\$ -	\$ 2,067,220	\$27,275,727	\$ -	\$ 27,275,727
State Government						
LCFF apportionment	1,043,418	-	-	1,043,418	-	1,043,418
State grants and other entitlements	1,669,008	-	1,853,367	3,522,375	-	3,522,375
Local Sources	2,764,193	4,722,710	31,416	7,518,319	1,779	7,520,098
Total	<u>\$ 30,685,126</u>	<u>\$ 4,722,710</u>	<u>\$ 3,952,003</u>	<u>\$39,359,839</u>	<u>\$ 1,779</u>	<u>\$ 39,361,618</u>

Note 5 - Capital Assets and Right-to-Use Leased Assets

Capital assets and right-to-use leased assets activities for the fiscal year ended June 30, 2023, is as follows:

	Balance July 1, 2022 as Restated	Additions	Deductions	Balance June 30, 2023
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 19,991,733	\$ -	\$ -	\$ 19,991,733
Construction in progress	38,249,524	73,642,481	(39,134,951)	72,757,054
Total capital assets not being depreciated	<u>58,241,257</u>	<u>73,642,481</u>	<u>(39,134,951)</u>	<u>92,748,787</u>
Capital assets being depreciated				
Land improvements	58,671,018	942,973	-	59,613,991
Buildings and improvements	473,589,358	38,191,979	-	511,781,337
Furniture and equipment	28,480,980	4,512,010	(1,073,723)	31,919,267
Total capital assets being depreciated	<u>560,741,356</u>	<u>43,646,962</u>	<u>(1,073,723)</u>	<u>603,314,595</u>
Total capital assets	<u>618,982,613</u>	<u>117,289,443</u>	<u>(40,208,674)</u>	<u>696,063,382</u>
Accumulated depreciation				
Land improvements	(24,203,670)	(2,672,598)	-	(26,876,268)
Buildings and improvements	(183,525,701)	(9,567,543)	-	(193,093,244)
Furniture and equipment	(14,816,254)	(1,692,801)	492,802	(16,016,253)
Total accumulated depreciation	<u>(222,545,625)</u>	<u>(13,932,942)</u>	<u>492,802</u>	<u>(235,985,765)</u>
Net depreciable capital assets	<u>338,195,731</u>	<u>29,714,020</u>	<u>(580,921)</u>	<u>367,328,830</u>
Right-to-use leased assets being amortized				
Buildings and improvements	396,400	309,463	-	705,863
Accumulated amortization				
Buildings and improvements	(158,560)	(110,230)	-	(268,790)
Net right-to-use leased assets	<u>237,840</u>	<u>199,233</u>	<u>-</u>	<u>437,073</u>
Right-to-use subscription IT assets being amortized				
Right-to-use subscription IT assets	1,373,422	734,721	-	2,108,143
Accumulated amortization	-	(611,715)	-	(611,715)
Net right-to-use subscription IT assets	<u>1,373,422</u>	<u>123,006</u>	<u>-</u>	<u>1,496,428</u>
Governmental activities capital assets, right-to-use leased assets, and right- to-use subscription IT assets, net	<u>\$ 398,048,250</u>	<u>\$ 103,678,740</u>	<u>\$ (39,715,872)</u>	<u>\$ 462,011,118</u>

Depreciation and amortization expenses were charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 11,774,841
Instructional library, media, and technology	9,119
School site administration	270,728
Home-to-school transportation	728,537
Food services	773,018
Community Services	221,530
Data processing	30,424
All other administration	231,456
Plant services	615,234
	<u>615,234</u>
Total depreciation and amortization expenses - governmental activities	<u>\$ 14,654,887</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, 2023, are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Funds		
General	\$ 2,415,203	\$ 16,098,927
Building	-	171
Special Reserve Fund for Capital Outlay Projects	11,438,783	-
Non-Major Governmental Funds		
Adult Education	79,479	33
Child Development	22,026	619,648
Cafeteria	402,124	1,795,522
Deferred Maintenance	2,000,000	-
Proprietary Fund		
Internal Service Self Insurance	2,156,686	-
	<u>2,156,686</u>	<u>-</u>
Total	<u>\$ 18,514,301</u>	<u>\$ 18,514,301</u>

The General Fund owes the Adult Education Non-Major Governmental Fund for year end adjustments.	\$ 79,479
The General Fund owes the Child Development Non-Major Governmental Fund for fourth quarter special education costs.	22,026
The General Fund owes the Cafeteria Non-Major Governmental Fund for year end adjustments.	402,124
The General Fund owes the Deferred Maintenance Non-Major Governmental Fund for maintenance and operations costs.	2,000,000
The General Fund owes the Special Reserve Fund for Capital Outlay Projects for construction project costs.	11,304,059
The General Fund owes the Special Reserve Fund for Capital Outlay Projects to replace a bus.	134,553
The General Fund owes the Self Insurance Fund for maintenance and operations.	467,653
The General Fund owes the Self Insurance Fund for the annual property and liability transfer.	1,689,033
The Adult Education Non-Major Governmental Fund owes the General Fund for postage and supply costs.	33
The Child Development Non-Major Governmental Fund owes the General Fund for the Child Development programs indirect costs.	611,745
The Child Development Non-Major Governmental Fund owes the General Fund for utility charges.	519
The Child Development Non-Major Governmental Fund owes the General Fund for maintenance costs.	7,384
The Cafeteria Non-Major Governmental Fund owes the General Fund for indirect costs.	1,469,450
The Cafeteria Non-Major Governmental Fund owes the General Fund for maintenance and repair costs.	326,072
The Building Fund owes the Special Reserve Fund for Capital Outlay Projects for construction project costs.	171
	171
Total	\$ 18,514,301

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, 2023, consist of the following:

The General Fund transferred to the Adult Education Non-Major Governmental Fund for Adult Education CTE programs.	\$ 354,871
The General Fund transferred to the Child Development Non-Major Governmental Fund for Special Education Preschool.	117,066
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for deferred maintenance expenses.	3,000,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the auditorium replacement reserve.	39,269
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the Field of Greens replacement reserve.	300,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the pupil transportation vehicle replacement reserve.	1,708,822
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the White Fleet vehicle replacement reserve.	550,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the high school facility improvement.	2,000,000
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for fingerprinting equipment replacement.	5,021
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for various project transfers.	10,556,204
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for the emergency repair reserve.	118,179
The General Fund transferred to the Debt Service Non-Major Governmental Fund for the lease revenue sinking fund deposits.	400,000
The Cafeteria Non-Major Governmental Fund transferred to the General Fund for routine restricted maintenance.	386,993
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for developer fee administrative costs.	20,284
The Capital Facilities Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for the annual sinking fund deposit.	150,000
The Special Reserve Fund for Capital Outlay Projects transferred to the Debt Service Non-Major Governmental Fund for the annual sinking fund deposit.	220,857
The Bond Interest and Redemption Non-Major Governmental Fund transferred to the Special Reserve Fund for Capital Outlay Projects the annual trustee fee of \$750 per bond measure.	<u>6,000</u>
Total	<u><u>\$ 19,933,566</u></u>

Note 7 - Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) at June 30, 2023, consist of the following:

	General Fund	Self Insurance Internal Service Fund	Total Governmental Activities
	<u> </u>	<u> </u>	<u> </u>
General vendors	\$ 3,206,901	\$ -	\$ 3,206,901
Early retirement incentive	1,279,588	-	1,279,588
Workers' compensation	-	500,000	500,000
Dental insurance	-	244,200	244,200
Property and liability insurance	-	150,000	150,000
Vision insurance	-	64,000	64,000
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 4,486,489</u>	<u>\$ 958,200</u>	<u>\$ 5,444,689</u>

Note 8 - Accounts Payable

Accounts payable at June 30, 2023, consists of the following:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Vendor payables	\$ 12,797,010	\$ 19,731,611	\$ 2,555,382	\$ 1,153,466	\$ 36,237,469	\$ 531,576	\$ 36,769,045
LCFF apportionment	4,462,476	-	-	-	4,462,476	-	4,462,476
Salaries and benefits	26,279,383	-	-	1,202,809	27,482,192	-	27,482,192
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 43,538,869</u>	<u>\$ 19,731,611</u>	<u>\$ 2,555,382</u>	<u>\$ 2,356,275</u>	<u>\$ 68,182,137</u>	<u>\$ 531,576</u>	<u>\$ 68,713,713</u>

Note 9 - Unearned Revenue

Unearned revenue at June 30, 2023, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Federal financial assistance	\$ 4,646,223	\$ 79,533	\$ 4,725,756
State categorical aid	2,710,396	12,395	2,722,791
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 7,356,619</u>	<u>\$ 91,928</u>	<u>\$ 7,448,547</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, 2022 as Restated	Additions	Deductions	Balance June 30, 2023	Due in One Year
Long-Term Liabilities					
General obligation bonds	\$ 154,567,385	\$ 131,748,011	\$ (16,205,000)	\$ 270,110,396	\$ 16,995,000
Qualified School Construction Bonds	16,420,000	-	-	16,420,000	-
Unamortized debt premiums	7,020,819	7,769,941	(274,763)	14,515,997	-
Financed purchase agreement	7,859,528	127,720	(618,450)	7,368,798	666,015
Leases	250,462	309,463	(106,062)	453,863	139,129
Subscription-based IT arrangements	445,305	734,721	(886,160)	293,866	145,451
Gregori traffic mitigation	144,762	-	(76,984)	67,778	67,778
Supplemental early retirement program	5,038,289	-	(1,259,572)	3,778,717	1,259,572
Compensated absences	1,495,122	520,025	-	2,015,147	-
Claims liability, see Note 13	7,068,340	12,899,595	(12,026,935)	7,941,000	-
Compensation benefits	662,213	-	-	662,213	-
Total	<u>\$ 200,972,225</u>	<u>\$ 154,109,476</u>	<u>\$ (31,453,926)</u>	<u>\$ 323,627,775</u>	<u>\$ 19,272,945</u>

The general obligation bonds are paid by the Bond Interest and Redemption Fund with local tax revenue. The District's Debt Service Fund is holding funds in escrow for the repayment of the Qualified School Construction Bonds. The premiums will be amortized over the life of the related debt. Payments on the financed purchase agreement and Gregori traffic mitigation are made from various District funds. The leases and subscription-based IT arrangements are paid by the fund using the right-to-use asset. 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, 2022	Issued	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2023
MCESD 2001, Series A								
5/2/02	5/1/27	4.8-5.93	\$ 16,998,337	\$ 4,406,674	\$ -	\$ -	\$ (784,114)	\$ 3,622,560
				9,843,751	-	716,408	(1,740,886)	8,819,273
MHSD 2001, Series A								
5/2/02	5/1/27	3.79-5.95	64,996,180	18,519,796	-	-	(3,181,482)	15,338,314
				41,377,164	-	3,031,603	(7,063,518)	37,345,249
MCESD 2018-D, Series A								
5/29/19	8/1/49	4.0-5.0	16,000,000	11,680,000	-	-	-	11,680,000
MCESD 2018-E, Series A								
5/29/19	8/1/49	3.0-5.0	11,000,000	7,740,000	-	-	-	7,740,000
MCESD 2018-D, Series B								
4/28/21	8/1/50	2.625-4.0	41,000,000	41,000,000	-	-	(1,925,000)	39,075,000
MCESD 2018-E, Series B								
4/28/21	8/1/50	2.625-4.0	20,000,000	20,000,000	-	-	(1,510,000)	18,490,000
MCESD 2018-D, Series C								
5/16/23	8/1/52	5.0	17,000,000	-	17,000,000	-	-	17,000,000
MCESD 2018-E, Series C								
5/16/23	8/1/52	5.0	26,000,000	-	26,000,000	-	-	26,000,000
MHSD 2022-L, Series A								
5/16/23	8/1/52	5.0	85,000,000	-	85,000,000	-	-	85,000,000
Total				<u>\$ 154,567,385</u>	<u>\$ 128,000,000</u>	<u>\$ 3,748,011</u>	<u>\$ (16,205,000)</u>	<u>\$ 270,110,396</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
2024	\$ 3,920,217	\$ 9,446,434	\$ 13,366,651	\$ 63,349	\$ 13,430,000
2025	3,842,608	9,340,488	13,183,096	856,904	14,040,000
2026	3,781,861	9,219,535	13,001,396	1,678,604	14,680,000
2027	3,721,607	9,098,982	12,820,589	2,529,411	15,350,000
2028	3,694,580	9,059,084	12,753,664	3,206,336	15,960,000
Total	<u>\$ 18,960,873</u>	<u>\$ 46,164,523</u>	<u>\$ 65,125,396</u>	<u>\$ 8,334,604</u>	<u>\$ 73,460,000</u>

The current interest bonds mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2024	\$ 3,565,000	\$ 6,576,014	\$ 10,141,014
2025	9,285,000	8,301,581	17,586,581
2026	5,975,000	7,939,457	13,914,457
2027	810,000	7,777,356	8,587,356
2028	920,000	7,742,757	8,662,757
2029-2033	6,745,000	37,984,335	44,729,335
2034-2038	19,085,000	35,339,175	54,424,175
2039-2043	32,675,000	30,005,275	62,680,275
2044-2048	50,990,000	21,411,075	72,401,075
2049-2053	74,935,000	8,618,125	83,553,125
 Total	 <u>\$ 204,985,000</u>	 <u>\$ 171,695,150</u>	 <u>\$ 376,680,150</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% per annum and mature on June 1, 2027. The District is receiving an IRS subsidy rate of 5.57% therefore the effective rate to the District is 1.43%. 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, 2023, the balance in the escrow account is \$11,354,731 and is reported in the District's Debt Service Fund.

Financed Purchase Agreements

The District has entered into agreements for a lighting retrofit project and for various equipment. Such agreements are, in substance, purchases and are reported as financed purchase agreements. The District's liability on the agreements is summarized below:

Year Ending June 30,	Principal	Interest to Maturity	Total
2024	\$ 666,015	\$ 243,676	\$ 909,691
2025	620,411	215,047	835,458
2026	632,372	184,671	817,043
2027	610,000	162,633	772,633
2028	630,000	143,830	773,830
2029-2033	3,455,000	413,989	3,868,989
2034	755,000	17,422	772,422
Total	<u>\$ 7,368,798</u>	<u>\$ 1,381,268</u>	<u>\$ 8,750,066</u>

Leases

1405 Kansas, Suite A

The District has entered into an agreement to lease office space in the building located at 1405 Kansas Avenue, Modesto California. The lease began January 1, 2001 and ends June 30, 2025, and under the terms of the lease the District will make monthly payments of \$7,115 (from July 1, 2020 to December 31, 2022) and \$7,454 (from January 1, 2023 to June 30, 2025). The annual interest rate charged to the lease is 4.0 percent. At June 30, 2023, the District has recognized right-to-use asset of \$158,547 and a total lease liability of \$171,652 related to the lease agreement. During the fiscal year, the District recorded \$79,284 in amortization expense and \$78,810 in principal and \$8,604 in interest payments for the right-to-use the office space.

1311 Woodward, Suite C

The District has entered into an agreement to lease office space in the building located at 1311 Woodward Avenue, Modesto California. The lease began January 1, 2023 and ends December 31, 2027, and under the terms of the lease the District will make monthly payments of \$5,363 (from January 1, 2023 to December 31, 2023) and each year after the rent will be adjusted with a 3% increase January 1st of each year. The annual interest rate charged to the lease is 4.0 percent. At June 30, 2023, the District has recognized right-to-use asset of \$278,516 and a total lease liability of \$282,211 related to the lease agreement. During the fiscal year, the District recorded \$30,946 in amortization expense and \$27,252 in principal and \$4,923 in interest payments for the right-to-use the office space.

The District's liability on the leases is summarized below:

Lease	Leases Outstanding July 1, 2022	Addition	Payments	Leases Outstanding June 30, 2023
1405 Kansas, Suite A	\$ 250,462	\$ -	\$ (78,810)	\$ 171,652
1311 Woodland Ave, Suite C	-	309,463	(27,252)	282,211
Total	<u>\$ 250,462</u>	<u>\$ 309,463</u>	<u>\$ (106,062)</u>	<u>\$ 453,863</u>

The remaining principal and interest payment requirements for the lease obligation debt as of June 30, 2023 are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 139,129	\$ 15,632	\$ 154,761
2025	146,793	9,928	156,721
2026	63,720	5,568	69,288
2027	68,430	2,933	71,363
2028	35,791	419	36,210
Total	<u>\$ 453,863</u>	<u>\$ 34,480</u>	<u>\$ 488,343</u>

Subscriptions-Based Information Technology Arrangements (SBITAs)

The District entered into SBITAs for the general operations of the District. At June 30, 2023, the District recognized a right-to-use subscriptions IT asset of \$2,108,143 and a SBITA liability of \$293,866 related to these agreements. During the fiscal year, the District recorded \$611,715 in amortization expense and \$5,972 in interest expense. The subscriptions have an interest rate of 2.04%.

The remaining principal and interest payment requirements for the SBITA obligation debt as of June 30, 2023, are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 145,451	\$ 5,999	\$ 151,450
2025	148,415	3,025	151,440
Total	<u>\$ 293,866</u>	<u>\$ 9,024</u>	<u>\$ 302,890</u>

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, 2023, totaled \$76,984. The remaining obligation totals \$67,778.

Supplemental Early Retirement Program

In February 2021, the District entered into a Supplemental Early Retirement Agreement with 93 eligible employees during that fiscal 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, 2023, was \$3,778,717.

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2023, amounted to \$2,015,147.

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, 2023, the obligation was \$662,213.

Note 11 - Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2023, 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
District Plan	\$ 103,325,091	\$ 56,198,163	\$ 69,989,511	\$ 12,829,189
Medicare Premium Payment (MPP) Program	1,579,864	-	-	(254,462)
Total	<u>\$ 104,904,955</u>	<u>\$ 56,198,163</u>	<u>\$ 69,989,511</u>	<u>\$ 12,574,727</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, 2021, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	907
Active employees	3,109
Total	4,016

Benefits Provided

The Plan provides upon retirement from the District after attaining retirement age the District will provide lifetime medical benefits to eligible retired employees (includes dependents). The District will contribute 100% up to the cap and the District Cap is \$143 per month.

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 measurement period of June 30, 2022, the District paid \$3,339,260 in benefits and consisted of \$2,392,707 in employer paid premiums and a credit for the implicit rate subsidy of \$946,553.

Total OPEB Liability of the District

The District’s total OPEB liability of \$103,325,091 was measured as of June 30, 2022, by applying certain roll-forward procedures to the actuarial valuation prepared as of June 30, 2021.

Actuarial Assumptions

The following assumptions were applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	2.75%, average, including inflation
Discount rate	3.54%
Healthcare cost trend rates	4.00% per year

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 CalSTRS.

The actuarial assumptions used in the June 30, 2021 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, 2021	<u>\$ 120,807,614</u>
Service cost	7,472,172
Interest	2,662,733
Expected minus actual benefit payments	801,190
Changes of assumptions or other inputs	(25,079,358)
Benefit payments*	<u>(3,339,260)</u>
Net change in total OPEB liability	<u>(17,482,523)</u>
Balance, June 30, 2022	<u><u>\$ 103,325,091</u></u>

* Includes implicit subsidy of \$946,553.

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 2.16% to 3.54%, since the previous valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Total OPEB Liability
1% decrease (2.54%)	\$ 120,983,672
Current discount rate (3.54%)	103,325,091
1% increase (4.54%)	90,591,871

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 (3%)	\$ 85,645,095
Current healthcare cost trend rate (4%)	103,325,091
1% increase (5%)	125,116,853

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

For the year ended June 30, 2023, the District recognized OPEB expense of \$12,829,189. At June 30, 2023, 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	\$ 2,217,854	\$ -
Differences between expected and actual experience	4,082,507	41,469,215
Changes of assumptions	49,897,802	28,520,296
Total	\$ 56,198,163	\$ 69,989,511

The deferred outflows of resources for OPEB contributions subsequent to measurement date will be recognized as reduction of the total OPEB liability in the subsequent fiscal year.

The deferred outflows of resources and deferred 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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2024	\$ 9,829,237	\$ 8,256,359
2025	9,829,237	8,256,359
2026	9,829,237	8,256,359
2027	9,829,237	8,256,359
2028	9,829,237	8,256,359
Thereafter	<u>4,834,124</u>	<u>28,707,716</u>
Total	<u>\$ 53,980,309</u>	<u>\$ 69,989,511</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, 2021, 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, 2023, the District reported a liability of \$1,579,864 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. 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, 2022 and June 30, 2021, respectively, was 0.4796% and 0.4599%, resulting in a net increase in the proportionate share of 0.0197%.

For the year ended June 30, 2023, the District recognized OPEB expense of \$(254,462).

Actuarial Methods and Assumptions

The June 30, 2022 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total OPEB liability to June 30, 2022, using the assumptions listed in the following table:

Measurement Date	June 30, 2022	June 30, 2021
Valuation Date	June 30, 2021	June 30, 2020
Experience Study	July 1, 2015 through June 30, 2018	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.54%	2.16%
Medicare Part A Premium Cost Trend Rate	4.50%	4.50%
Medicare Part B Premium Cost Trend Rate	5.40%	5.40%

For the valuation as of June 30, 2021, 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 members. The projection scale was set equal to 110% 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 209 or an average of 0.14% of the potentially eligible population (145,282).

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, 2022, 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, 2022, is 3.54%. As the MPP Program is funded on a pay-as-you-go basis as previously noted, the OPEB Plan’s fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.54%, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2022, was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate increased 1.38% from 2.16% as of June 30, 2021.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.54%)	\$ 1,722,356
Current discount rate (3.54%)	1,579,864
1% increase (4.54%)	1,456,485

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 current Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rates	Net OPEB Liability
1% decrease (3.50% Part A and 4.40% Part B)	\$ 1,449,583
Current Medicare costs trend rates (4.50% Part A and 5.40% Part B)	1,579,864
1% increase (5.50% Part A and 6.40% Part B)	1,727,544

Note 12 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 150,000	\$ -	\$ -	\$ 500	\$ 150,500
Stores inventories	835,763	-	-	522,509	1,358,272
Prepaid expenditures	4,486,489	-	-	-	4,486,489
Total nonspendable	<u>5,472,252</u>	<u>-</u>	<u>-</u>	<u>523,009</u>	<u>5,995,261</u>
Restricted					
Legally restricted programs	102,212,522	-	-	6,148	102,218,670
Food service	-	-	-	13,260,011	13,260,011
Childcare programs	-	-	-	1,268,641	1,268,641
Student activities	-	-	-	3,318,217	3,318,217
Capital projects	-	119,253,882	-	2,320,020	121,573,902
Debt service	-	-	-	36,576,467	36,576,467
Total restricted	<u>102,212,522</u>	<u>119,253,882</u>	<u>-</u>	<u>56,749,504</u>	<u>278,215,908</u>
Committed					
Deferred maintenance program	-	-	-	3,039,433	3,039,433
Additional reserve for economic uncertainties	16,580,002	-	-	-	16,580,002
LCAP supplemental and concentration	9,463,797	-	-	-	9,463,797
Curriculum delivery reserve	7,465,882	-	-	-	7,465,882
Retiree medical benefits reserve	1,031,372	-	-	-	1,031,372
Total committed	<u>34,541,053</u>	<u>-</u>	<u>-</u>	<u>3,039,433</u>	<u>37,580,486</u>
Assigned					
Pending collective bargaining negotiations	10,000,000	-	-	-	10,000,000
Carryover obligations	1,762,436	-	-	-	1,762,436
Capital projects/maintenance	-	-	61,071,266	-	61,071,266
Total assigned	<u>11,762,436</u>	<u>-</u>	<u>61,071,266</u>	<u>-</u>	<u>72,833,702</u>
Unassigned					
Reserve for economic uncertainties	16,580,002	-	-	-	16,580,002
Remaining unassigned	34,390,985	-	-	-	34,390,985
Total unassigned	<u>50,970,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,970,987</u>
Total	<u>\$ 204,959,250</u>	<u>\$ 119,253,882</u>	<u>\$ 61,071,266</u>	<u>\$ 60,311,946</u>	<u>\$ 445,596,344</u>

Note 13 - Risk Management

Workers' Compensation

The District is exposed to various risks of loss related to torts; theft, damage, 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, 2021 to June 30, 2023:

	Dental*	Workers' Compensation	Property and Liability	Vision	Total
Liability Balance, July 1, 2021	\$ 130,000	\$ 8,586,388	\$ 500,000	\$ -	\$ 9,216,388
Claims and changes in estimates	3,113,370	835,557	3,128,585	608,591	7,686,103
Claims payments	(3,084,370)	(4,296,605)	(1,708,585)	(585,591)	(9,675,151)
Liability Balance, June 30, 2022	159,000	5,125,340	1,920,000	23,000	7,227,340
Claims and changes in estimates	3,279,055	8,323,384	3,814,386	761,825	16,178,650
Claims payments	(3,296,055)	(7,820,724)	(3,444,386)	(761,825)	(15,322,990)
Liability Balance, June 30, 2023	<u>\$ 142,000</u>	<u>\$ 5,628,000</u>	<u>\$ 2,290,000</u>	<u>\$ 23,000</u>	<u>\$ 8,083,000</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, 2023, 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	\$ 222,053,230	\$ 62,860,126	\$ 32,569,077	\$ 16,388,176
CalPERS	166,941,108	61,976,680	4,153,709	23,578,427
Total	<u>\$ 388,994,338</u>	<u>\$ 124,836,806</u>	<u>\$ 36,722,786</u>	<u>\$ 39,966,603</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, 2021, 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% 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, 2023, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	19.10%	19.10%
Required employer contribution rate	10.828%	10.828%
Required state contribution rate		

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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2023, are presented above and the District's total contributions were \$38,099,530.

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

At June 30, 2023, 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	\$ 222,053,230
State's proportionate share of the net pension liability	111,203,390
Total	\$ 333,256,620

The net pension liability was measured as of June 30, 2022. 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, 2022 and June 30, 2021, respectively, was 0.3196% and 0.3059%, resulting in a net increase in the proportionate share of 0.0137%.

For the year ended June 30, 2023, the District recognized pension expense of \$16,388,176. In addition, the District recognized pension expense and revenue of \$8,968,480 for support provided by the State. At June 30, 2023, 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	\$ 38,099,530	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	13,566,219	5,060,884
Differences between projected and actual earnings on pension plan investments	-	10,858,834
Differences between expected and actual experience in the measurement of the total pension liability	182,152	16,649,359
Changes of assumptions	11,012,225	-
Total	\$ 62,860,126	\$ 32,569,077

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 and deferred inflow 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/(Inflows) of Resources
2024	\$ (7,976,619)
2025	(8,641,316)
2026	(12,981,015)
2027	18,740,116
Total	\$ (10,858,834)

The deferred outflows of resources and deferred 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
2024	\$ 10,033,142
2025	(734,923)
2026	(2,977,282)
2027	(1,625,153)
2028	(1,945,132)
Thereafter	299,701
Total	\$ 3,050,353

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, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
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% 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 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 current and future valuation, CalSTRS’ independent

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, 2022, 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%. 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 of 7.10% and assume 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%)	\$ 377,128,743
Current discount rate (7.10%)	222,053,230
1% increase (8.10%)	93,293,930

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, 2021, 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, 2023, 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%	8.00%
Required employer contribution rate	25.370%	25.370%

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 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, 2023, are presented above and the total District contributions were \$22,938,281.

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

As of June 30, 2023, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$166,941,108. The net pension liability was measured as of June 30, 2022. 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, 2022 and June 30, 2021, respectively, was 0.4852% and 0.4654%, resulting in a net increase in the proportionate share of 0.0198%.

For the year ended June 30, 2023, the District recognized pension expense of \$23,578,427. At June 30, 2023, 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	\$ 22,938,281	\$ -
Change in proportion and differences between contributions made and District’s proportionate share of contributions	6,223,366	-
Differences between projected and actual earnings on pension plan investments	19,711,203	-
Differences between expected and actual experience in the measurement of the total pension liability	754,476	4,153,709
Changes of assumptions	12,349,354	-
Total	\$ 61,976,680	\$ 4,153,709

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 3,287,202
2025	2,915,521
2026	1,489,284
2027	12,019,196
Total	\$ 19,711,203

The deferred outflows of resources and deferred 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 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ 6,152,608
2025	5,112,043
2026	3,908,771
2027	65
Total	\$ 15,173,487

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, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. 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 - cap-weighted	30%	4.45%
Global Equity non-cap-weighted	12%	3.84%
Private Equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed Securities	5%	0.50%
Investment Grade Corporates	10%	1.56%
High Yield	5%	2.27%
Emerging Market Debt	5%	2.48%
Private Debt	5%	3.57%
Real Assets	15%	3.21%
Leverage	(5%)	(0.59%)

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. 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 expected rate of return on the School Employer Pool investments 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 (5.90%)	\$ 241,154,883
Current discount rate (6.90%)	166,941,108
1% increase (7.90%)	105,606,150

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% of an employee’s gross earnings. An employee is required to contribute 6.2% 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 \$17,839,350 (10.828% 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, 2023.

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, 2023

Construction Commitments

As of June 30, 2023, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
La Loma JHS - science lab renovations	\$ 2,182,430	December 2023
Mark Twain JHS - science lab renovations	8,577,960	December 2024
El Vista - phase I modernization	12,802,445	December 2024
Fremont - phase I modernization	7,997,144	June 2024
Tuolumne - phase I modernization	18,901,225	December 2024
Johansen HS HVAC replacement - phase II	3,041,728	June 2024
Jr. High track & field facilities	3,939,204	December 2023
Roosevelt JHS - site & building ADA upgrades	2,475,766	December 2023
Modesto HS - Path of Travel ADA upgrades	218,744	October 2023
HVAC & plumbing fixture replacement at 25 sites	4,461,847	June 2024
Mark Twain JH bleacher replacement	242,027	March 2024
Fairview - parent drop off improvements	859,996	December 2023
Lakewood - paving and slurry	192,402	September 2023
Kirschen - paving and slurry	193,202	September 2023
Lakewood - exterior painting	137,602	September 2023
Robertson Road - exterior painting	131,009	September 2023
Johansen HS - exterior painting	589,950	October 2023
Garrison - reroofing	93,303	October 2023
Downey HS - reroofing	9,146	October 2023
Elliott - reroofing	15,586	October 2023
Beyer HS - parking lot solar	2,949,993	December 2023
Davis HS - parking lot solar	519,325	August 2023
Downey HS - parking lot solar	1,766,116	September 2023
Johansen HS - parking lot solar	6,084,838	December 2023
Total	\$ 78,382,988	

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 current year shall be based on 0.30% of the certificated salaries (unrestricted resources only (1000-1999) excludes benefits) as calculated on the unaudited actuals for the prior fiscal year.
- CSEA – Effective July 1, 2021, the District's contribution to the CSEA Retiree Medical Trust Fund in the current year shall be an amount equal to 0.70% of the classified salaries (unrestricted resources only (2000-2999) excludes benefits) as calculated on the unaudited actuals for the prior fiscal year.

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

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

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

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

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

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

Note 17 - Subsequent Events

1311 Woodland Avenue, Suite B, Modesto

On September 8, 2023, the District entered a lease of 6,040 sq. ft. office space located at 1311 Woodland Avenue, Suite B, Modesto. The term of the lease is for 60 months commencing January 1, 2024, to December 31, 2029. The monthly rent is \$8,758 (January 1, 2024, to December 31, 2024) and is due on the first of each month and will be adjusted 3% on January 1st of each year.

1601 Cummins Drive, Suite C, Modesto

On January 18, 2024, the District entered a lease of 9,856+ sq. ft. office space located at 1601 Cummins Drive, Suite C, Modesto. The term of the lease is for 123 months commencing February 1, 2024, to April 30, 2034. The monthly rent is \$9,856 (February 1, 2024, to April 30, 2025) and is due on the first of each month and will be adjusted 2% on May 1st of each year.

Note 18 - Adoption of New Accounting Standard

As of July 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

Government Activitiesal	
Net Position - Beginning, as previously reported on June 30, 2022	\$ 69,863,349
Right-to-use subscription IT assets, net of amortization	1,373,422
Subscription liabilities	<u>(445,305)</u>
Net Position - Beginning as Restated on July 1, 2022	<u><u>\$ 70,791,466</u></u>



Required Supplementary Information
June 30, 2023

Modesto City Schools

Modesto City Schools
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local Control Funding Formula	\$360,950,247	\$400,507,888	\$390,550,709	\$ (9,957,179)
Federal sources	33,263,126	121,498,640	70,403,129	(51,095,511)
Other State sources	50,140,178	157,237,780	147,686,536	(9,551,244)
Other local sources	4,321,240	4,992,034	8,848,601	3,856,567
Total revenues ¹	<u>448,674,791</u>	<u>684,236,342</u>	<u>617,488,975</u>	<u>(66,747,367)</u>
Expenditures				
Current				
Certificated salaries	191,117,592	226,576,401	213,345,172	13,231,229
Classified salaries	65,738,364	102,257,291	91,370,912	10,886,379
Employee benefits	117,466,255	135,868,228	122,164,374	13,703,854
Books and supplies	19,929,303	38,641,961	28,439,406	10,202,555
Services and operating expenditures	47,887,176	195,964,260	56,976,307	138,987,953
Other outgo	4,820,383	5,070,834	3,842,982	1,227,852
Capital outlay	195,000	13,901,288	12,517,109	1,384,179
Debt service				
Debt service - principal	647,611	647,611	1,504,610	(856,999)
Debt service - interest and other	232,860	232,860	252,725	(19,865)
Total expenditures ¹	<u>448,034,544</u>	<u>719,160,734</u>	<u>530,413,597</u>	<u>188,747,137</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>640,247</u>	<u>(34,924,392)</u>	<u>87,075,378</u>	<u>121,999,770</u>
Other Financing Sources (Uses)				
Transfers in	1,168,496	1,418,496	407,277	(1,011,219)
Proceeds from financed purchase agreement	-	127,720	127,720	-
Proceeds from lease	-	309,463	309,463	-
Proceeds from subscription-based IT agreements	-	734,721	734,721	-
Contributions	-	418,224	-	(418,224)
Transfers out	<u>(11,489,000)</u>	<u>(19,638,000)</u>	<u>(19,149,432)</u>	<u>488,568</u>
Net financing sources (uses)	<u>(10,320,504)</u>	<u>(16,629,376)</u>	<u>(17,570,251)</u>	<u>(940,875)</u>
Net Change in Fund Balances	(9,680,257)	(51,553,768)	69,505,127	121,058,895
Fund Balance - Beginning	<u>135,454,123</u>	<u>135,454,123</u>	<u>135,454,123</u>	<u>-</u>
Fund Balance - Ending	<u>\$125,773,866</u>	<u>\$ 83,900,355</u>	<u>\$204,959,250</u>	<u>\$ 121,058,895</u>

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

Modesto City Schools
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total OPEB Liability			
Service cost	\$ 7,472,172	\$ 7,490,353	\$ 2,242,549
Interest	2,662,733	3,568,472	2,400,097
Changes of benefit terms	-	-	7,588,746
Expected minus actual benefit payments	801,190	-	-
Difference between expected and actual experience	-	(45,153,955)	5,221,848
Changes of assumptions	(25,079,358)	(1,127,942)	74,572,350
Benefit payments	<u>(3,339,260)</u>	<u>(3,131,281)</u>	<u>(2,875,674)</u>
Net change in total OPEB liability	(17,482,523)	(38,354,353)	89,149,916
Total OPEB Liability - Beginning	<u>120,807,614</u>	<u>159,161,967</u>	<u>70,012,051</u>
Total OPEB Liability - Ending	<u>\$ 103,325,091</u>	<u>\$ 120,807,614</u>	<u>\$ 159,161,967</u>
Covered Payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>
Total OPEB Liability as a Percentage of Covered Payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020

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

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

Modesto City Schools
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2023

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 2,014,646	\$ 2,584,557	\$ 2,935,337
Interest	2,481,374	2,608,334	2,220,549
Changes of benefit terms	-	-	-
Expected minus actual benefit payments	-	-	-
Difference between expected and actual experience	-	(8,442,996)	-
Changes of assumptions	2,975,805	(2,293,453)	(7,217,553)
Benefit payments	<u>(3,155,922)</u>	<u>(3,237,556)</u>	<u>(2,750,171)</u>
Net change in total OPEB liability	4,315,903	(8,781,114)	(4,811,838)
Total OPEB Liability - Beginning	<u>65,696,148</u>	<u>74,477,262</u>	<u>79,289,100</u>
Total OPEB Liability - Ending	<u>\$ 70,012,051</u>	<u>\$ 65,696,148</u>	<u>\$ 74,477,262</u>
Covered Payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>
Total OPEB Liability as a Percentage of Covered Payroll	<u>N/A¹</u>	<u>N/A¹</u>	<u>N/A¹</u>
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

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

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

Modesto City Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability – MPP Program
Year Ended June 30, 2023

Year ended June 30,	2023	2022	2021	2020	2019	2018
Proportion of the net OPEB liability	0.4796%	0.4599%	0.5360%	0.5373%	0.5538%	0.5220%
Proportionate share of the net OPEB liability	\$ 1,579,864	\$ 1,834,326	\$ 2,271,456	\$ 2,000,741	\$ 2,119,918	\$ 2,195,895
Covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Plan fiduciary net position as a percentage of the total OPEB liability	(0.94%)	(0.80%)	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

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

Modesto City Schools

Schedule of the District's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2023

	2023	2022	2021	2020	2019
CalSTRS					
Proportion of the net pension liability	0.3196%	0.3059%	0.3076%	0.3037%	0.3086%
Proportionate share of the net pension liability	\$ 222,053,230	\$ 139,230,222	\$ 298,099,316	\$ 274,295,402	\$ 283,590,456
State's proportionate share of the net pension liability	111,203,390	70,055,248	153,670,233	149,646,454	162,368,800
Total	<u>\$ 333,256,620</u>	<u>\$ 209,285,470</u>	<u>\$ 451,769,549</u>	<u>\$ 423,941,856</u>	<u>\$ 445,959,256</u>
Covered payroll	<u>\$ 188,989,385</u>	<u>\$ 172,739,115</u>	<u>\$ 168,599,023</u>	<u>\$ 165,859,496</u>	<u>\$ 166,770,859</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	117.50%	80.60%	176.81%	165.38%	170.05%
Plan fiduciary net position as a percentage of the total pension liability	81%	87%	72%	73%	71%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
CalPERS					
Proportion of the net pension liability	0.4852%	0.4654%	0.4540%	0.4320%	0.4428%
Proportionate share of the net pension liability	\$ 166,941,108	\$ 94,640,974	\$ 139,288,207	\$ 125,889,022	\$ 118,053,195
Covered payroll	<u>\$ 73,687,822</u>	<u>\$ 67,470,874</u>	<u>\$ 66,369,434</u>	<u>\$ 62,903,388</u>	<u>\$ 60,374,219</u>
Proportionate share of the net pension liability as a percentage of its covered payroll	226.55%	140.27%	209.87%	200.13%	195.54%
Plan fiduciary net position as a percentage of the total pension liability	70%	81%	70%	70%	71%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018

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, 2023

	2018	2017	2016	2015
CaSTRS				
Proportion of the net pension liability	0.2883%	0.2750%	0.3345%	0.3092%
Proportionate share of the net pension liability	\$ 266,623,151	\$ 222,420,923	\$ 225,190,926	\$ 180,662,657
State's proportionate share of the net pension liability	157,732,004	126,620,264	119,101,175	109,091,913
Total	<u>\$ 424,355,155</u>	<u>\$ 349,041,187</u>	<u>\$ 344,292,101</u>	<u>\$ 289,754,570</u>
Covered payroll	<u>\$ 155,167,170</u>	<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	171.83%	148.44%	155.58%	130.13%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%	74%	77%
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CaPERS				
Proportion of the net pension liability	0.4212%	0.4332%	0.4334%	0.4282%
Proportionate share of the net pension liability	\$ 100,549,464	\$ 85,562,699	\$ 63,877,115	\$ 48,616,259
Covered payroll	<u>\$ 54,541,489</u>	<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	184.35%	164.46%	133.26%	107.80%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%	79%	83%
Measurement Date	June 30, 2017	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's Contributions
Year Ended June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
CalSTRS					
Contractually required contribution	\$ 38,099,530	\$ 31,977,004	\$ 27,897,367	\$ 28,830,433	\$ 27,001,926
Less contributions in relation to the contractually required contribution	<u>38,099,530</u>	<u>31,977,004</u>	<u>27,897,367</u>	<u>28,830,433</u>	<u>27,001,926</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 199,473,979</u>	<u>\$ 188,989,385</u>	<u>\$ 172,739,115</u>	<u>\$ 168,599,023</u>	<u>\$ 165,859,496</u>
Contributions as a percentage of covered payroll	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>
CalPERS					
Contractually required contribution	\$ 22,938,281	\$ 16,881,880	\$ 13,966,471	\$ 13,088,716	\$ 11,361,610
Less contributions in relation to the contractually required contribution	<u>22,938,281</u>	<u>16,881,880</u>	<u>13,966,471</u>	<u>13,088,716</u>	<u>11,361,610</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 90,414,982</u>	<u>\$ 73,687,822</u>	<u>\$ 67,470,874</u>	<u>\$ 66,369,434</u>	<u>\$ 62,903,388</u>
Contributions as a percentage of covered payroll	<u>25.370%</u>	<u>22.910%</u>	<u>20.700%</u>	<u>19.721%</u>	<u>18.062%</u>

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

Modesto City Schools
Schedule of the District's Contributions
Year Ended June 30, 2023

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS				
Contractually required contribution	\$ 24,065,035	\$ 19,520,030	\$ 16,077,391	\$ 12,853,330
Less contributions in relation to the contractually required contribution	<u>24,065,035</u>	<u>19,520,030</u>	<u>16,077,391</u>	<u>12,853,330</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 166,770,859</u>	<u>\$ 155,167,170</u>	<u>\$ 149,835,890</u>	<u>\$ 144,744,707</u>
Contributions as a percentage of covered payroll	<u>14.43%</u>	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS				
Contractually required contribution	\$ 9,376,720	\$ 7,574,722	\$ 6,163,468	\$ 5,642,385
Less contributions in relation to the contractually required contribution	<u>9,376,720</u>	<u>7,574,722</u>	<u>6,163,468</u>	<u>5,642,385</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 60,374,219</u>	<u>\$ 54,541,489</u>	<u>\$ 52,025,559</u>	<u>\$ 47,934,627</u>
Contributions as a percentage of covered payroll	<u>15.531%</u>	<u>13.888%</u>	<u>11.847%</u>	<u>11.771%</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.

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 2.16% to 3.54% 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 plan's 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 2.16% to 3.54% 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 the CalSTRS plan from the previous valuations. The CalPERS plan rate of investment return assumption was changed from 7.15% to 6.90% since the previous valuation.

Schedule of the District's 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, 2023

Modesto City Schools

Modesto City Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing 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 COVID-19, Special Education: ARP IDEA Part B, Local Assistance Entitlement	84.027	13379	\$ 6,963,930
Special Education Grants to States - Mental Health	84.027	15638	98,485
Special Education Grants to States - Private School ISP	84.027A	15197	327,766
	84.027	10115	<u>12,646</u>
Subtotal (84.027)			<u>7,402,827</u>
Special Education Grants to States - Alternate Dispute Resolution	84.173A	13007	48,421
Special Education Grants to States - Preschool Grants	84.173	13430	152,472
Special Education Preschool Grants - Preschool Staff Development	84.173A	13431	1,744
COVID-19, Special Education: ARP IDEA, Preschool Grants	84.173	15639	<u>16,213</u>
Subtotal (84.173)			<u>218,850</u>
Subtotal Special Education Cluster			<u>7,621,677</u>
Adult Education - Basic Grants to States: Basic and ESL	84.002A	14508	45,160
Adult Education - Basic Grants to States: Secondary Education	84.002	13978	<u>9,765</u>
Subtotal (84.002)			<u>54,925</u>
COVID-19, Elementary and Secondary School Emergency Relief Fund II (ESSER II)	84.425D	15547	13,708,737
COVID-19, American Rescue Plan: Elementary and Secondary School Emergency Relief Fund III (ESSER III)	84.425U	15559	22,479,288
COVID-19, Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	7,683,563
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC) Program	84.425W	15564	7,076
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC II) Program	84.425W	15566	<u>3,587</u>
Subtotal (84.425)			<u>43,882,251</u>
Title I Grants to Local Educational Agencies - Basic	84.010	14329	11,883,383
Title I Grants to Local Educational Agencies - ESSA: School Improvement Funding for LEAs	84.010	15438	<u>592,206</u>
Subtotal (84.010)			<u>12,475,589</u>
English Language Acquisition State Grants -IEP	84.365	15146	10,761
English Language Acquisition State Grants - LEP	84.365	14346	<u>1,295,325</u>
Subtotal (84.365)			<u>1,306,086</u>
Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	1,564,192
Student Support and Academic Enrichment Program	84.424	15396	867,504
Twenty-First Century Community Learning Centers	84.287	14349	1,719,773
ESEA (ESSA): Education for Homeless Children and Youth	84.196	14332	63,098
Career and Technical Education - Basic Grants to States	84.048	14894	526,165
Special Education-Grants for Infants and Families	84.181	23761	<u>91,745</u>
Total U.S. Department of Education			<u>70,173,005</u>

Modesto City Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Justice			
STOP School Violence Program	16.839	[1]	285,049
Total U.S. Department of Justice			<u>285,049</u>
U.S. Department of Health and Human Services			
Passed Through California Department of Education			
Head Start Cluster			
Head Start	93.600	10016	4,501,398
Head Start - Training Grant	93.600	10016	10,580
COVID-19, American Rescue Plan (ARP) Regional Head Start	93.600	10016	119,937
COVID-19, Coronavirus Response & Relief Supplemental			
Appropriations (CRRSA) Regional Head Start	93.600	10016	23,854
Head Start - Early Head Start	93.600	15291	571,863
COVID-19, American Rescue Plan (ARP) Early Head Start			
Partnership	93.600	15291	19,694
Total Head Start Cluster			<u>5,247,326</u>
Passed Through California Department of Social Services			
CCDF Cluster			
COVID-19, Child Development: Coronavirus Response and Relief			
Supplemental Appropriations Act One-Time Stipend	93.575	15555	71,700
COVID-19, Child Development: ARP California State Preschool			
Program One-Time Stipend	93.575	15640	177,714
Child Care and Development Block Grant	93.575	10163	(4,432)
Subtotal (93.575)			244,982
Child Care Mandatory and Matching Funds of the Child Care			
and Development Fund	93.596	13609	278,073
Total CCDF Cluster			<u>523,055</u>
Total U.S. Department of Health and Human Services			<u>5,770,381</u>
U.S. Department of Agriculture			
Passed Through California Department of Education (CDE):			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	12,562,517
National School Lunch Program - Meal Supplements	10.555	13396	600,106
National School Lunch Program - Commodity	10.555	13391	1,643,478
Subtotal (10.555)			14,806,101
School Breakfast Program - Especially Needy Breakfast	10.553	13526	2,748,959
National School Lunch Program - Summer Food Program	10.559	13004	156,989
Total Child Nutrition Cluster			<u>17,712,049</u>

[1] Pass-Through Entity Identifying Number not applicable, District direct funded, Grant I.D. Number 2019-YS-BX0213

Modesto City Schools
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Passed Through California Department of Social Services			
Child and Adult Care Food Program	10.558	13393	358,550
Child and Adult Care Food Program - Cash in Lieu of Commodities	10.558	13389	<u>19,706</u>
Subtotal (10.558)			<u>378,256</u>
Total U.S. Department of Agriculture			<u>18,090,305</u>
Total Federal Financial Assistance			<u><u>\$ 94,318,740</u></u>

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
Chad Brown	President	2026
John Ervin III	Vice President	2024
Adolfo Lopez	Member	2026
Abel Maestas	Member	2024
Cindy Marks	Member	2026
Homero Mejia	Member	2024
Jolene Daly	Member	2026

Administration

Brad Goudeau	Deputy Superintendent
Tim Zearley	Associate Superintendent, Business Services, CBO
Mike Rich	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
Linda Mumma Solorio	Interim Chief Communications Officer
Russ Selken	Chief Technology Officer

Modesto City Schools
Schedule of Average Daily Attendance
Year Ended June 30, 2023

	District's Final Report		As Adjusted per Audit	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA				
Transitional kindergarten through third	5,927.19	5,988.79	5,943.27	6,088.66
Fourth through sixth	4,275.84	4,246.78	4,275.60	4,248.02
Seventh and eighth	2,719.23	2,695.78	2,719.39	2,703.18
Ninth through twelfth	13,878.22	13,574.64	13,921.48	13,799.22
	26,800.48	26,505.99	26,859.74	26,839.08
Special Education, Nonpublic, Nonsectarian schools				
Transitional kindergarten through third	2.18	2.33	1.66	2.33
Fourth through sixth	5.86	5.73	4.46	5.73
Seventh and eighth	7.36	7.23	5.60	7.23
Ninth through twelfth	31.23	29.88	23.64	29.92
	46.63	45.17	35.36	45.21
Total ADA	26,847.11	26,551.16	26,895.10	26,884.29

Modesto City Schools
 Schedule of Instructional Time
 Year Ended June 30, 2023

<u>Grade Level</u>	<u>1986-1987 Minutes Requirement</u>	<u>2022-2023 Actual Minutes</u>	<u>Number of Actual Days</u>	<u>Status</u>
Kindergarten	36,000	50,464	180	Complied
Grades 1 - 3	50,400			
Grade 1		50,464	180	Complied
Grade 2		50,464	180	Complied
Grade 3		50,464	180	Complied
Grades 4 - 8	54,000			
Grade 4		54,028	180	Complied
Grade 5		54,028	180	Complied
Grade 6		54,028	180	Complied
Grade 7		54,028	180	Complied
Grade 8		54,028	180	Complied
Grades 9 - 12	64,800			
Grade 9		65,460	180	Complied
Grade 10		65,460	180	Complied
Grade 11		65,460	180	Complied
Grade 12		65,460	180	Complied

Modesto City Schools
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
 Year Ended June 30, 2023

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

	<u>Self Insurance Internal Service Fund</u>
Fund Balance	
Balance, June 30, 2023, Unaudited Actuals	\$ 16,008,165
Increase in claims liability	<u>(2,296,809)</u>
Balance, June 30, 2023, Audited Financial Statements	<u><u>\$ 13,711,356</u></u>

Modesto City Schools
Schedule of Financial Trends and Analysis
Year Ended June 30, 2023

	(Budget) 2024 ¹	2023	2022 ¹	2021 ¹
General Fund ³				
Revenues	\$ 545,252,132	\$ 617,329,150	\$ 498,121,544	\$ 461,071,469
Other sources and transfers in	6,621,776	1,127,826	6,178,989	3,981,200
Total Revenues and Other Sources	<u>551,873,908</u>	<u>618,456,976</u>	<u>504,300,533</u>	<u>465,052,669</u>
Expenditures	553,671,932	529,369,413	460,663,260	427,003,503
Other uses and transfers out	12,579,383	23,297,318	49,177,292	9,732,656
Total Expenditures and Other Uses	<u>566,251,315</u>	<u>552,666,731</u>	<u>509,840,552</u>	<u>436,736,159</u>
Increase (Decrease) in Fund Balance	<u>(14,377,407)</u>	<u>65,790,245</u>	<u>(5,540,019)</u>	<u>28,316,510</u>
Ending Fund Balance	<u>\$ 182,084,589</u>	<u>\$ 196,461,996</u>	<u>\$ 130,671,751</u>	<u>\$ 136,211,770</u>
Available Reserves ²	<u>\$ 37,091,127</u>	<u>\$ 50,970,987</u>	<u>\$ 64,249,223</u>	<u>\$ 70,284,092</u>
Available Reserves as a Percentage of Total Outgo	<u>6.55%</u>	<u>9.22%</u>	<u>12.60%</u>	<u>16.09%</u>
Long-Term Liabilities ⁴	<u>Not Available</u>	<u>\$ 817,527,068</u>	<u>\$ 557,485,361</u>	<u>\$ 814,941,033</u>
Average Daily Attendance at P-2	<u>26,800</u>	<u>26,895</u>	<u>25,392</u>	<u>28,150</u>

The General Fund balance has increased by \$60,250,226 over the past two years. The fiscal year 2023-2024 budget projects a decrease of \$14,377,407 (7.3%). For a district this size, the State recommends available reserves of at least 3.0% of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2023-2024 fiscal year. Total long-term liabilities have increased by \$2,586,035 over the past two years, primarily due to changes in the net pension liability and other postemployment benefits obligation.

Average daily attendance has decreased by 1,255 over the past two years. A decrease of 95 ADA is anticipated during fiscal year 2023-2024.

¹ Financial information for 2024, 2022, and 2021 is included for analytical purposes only and has not been subjected to audit.

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

³ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Capital Outlay as required by GASB Statement No. 54.

⁴ The long-term liabilities balance was restated as of June 30, 2022, due to the implementation of GASB Statement No. 96. The long-term liabilities were restated as of June 30, 2021, due to the implementation of GASB Statement No. 87.

Modesto City Schools
Schedule of Charter Schools
Year Ended June 30, 2023

<u>Name of Charter School</u>	<u>Charter Number</u>	<u>Included in Audit Report</u>
Aspire Vanguard College Preparatory Academy	1125	No
Aspire University Charter	1963	No
Connecting Waters Charter School - Central Valley	1973	No

Modesto City Schools
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2023

	Student Activities Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
Assets										
Deposits and investments	\$ 3,318,217	\$ 1,915	\$ 1,284,970	\$ 12,778,368	\$ 1,921,920	\$ 2,277,914	\$ 37,440	\$ 25,221,736	\$ 11,354,731	\$ 58,197,211
Receivables	-	34,113	1,262,923	2,650,301	-	4,666	-	-	-	3,952,003
Due from other funds	-	79,479	22,026	402,124	2,000,000	-	-	-	-	2,503,629
Stores inventories	-	-	-	522,509	-	-	-	-	-	522,509
Total assets	\$ 3,318,217	\$ 115,507	\$ 2,569,919	\$ 16,353,302	\$ 3,921,920	\$ 2,282,580	\$ 37,440	\$ 25,221,736	\$ 11,354,731	\$ 65,175,352
Liabilities and Fund Balances										
Liabilities										
Accounts payable	\$ -	\$ 109,326	\$ 610,488	\$ 753,974	\$ 882,487	\$ -	\$ -	\$ -	\$ -	\$ 2,356,275
Due to other funds	-	33	619,648	1,795,522	-	-	-	-	-	2,415,203
Unearned revenue	-	-	71,142	20,786	-	-	-	-	-	91,928
Total liabilities	-	109,359	1,301,278	2,570,282	882,487	-	-	-	-	4,863,406
Fund Balances										
Nonspendable	-	-	-	523,009	-	-	-	-	-	523,009
Restricted	3,318,217	6,148	1,268,641	13,260,011	-	2,282,580	37,440	25,221,736	11,354,731	56,749,504
Committed	-	-	-	-	3,039,433	-	-	-	-	3,039,433
Total fund balances	3,318,217	6,148	1,268,641	13,783,020	3,039,433	2,282,580	37,440	25,221,736	11,354,731	60,311,946
Total liabilities and fund balance	\$ 3,318,217	\$ 115,507	\$ 2,569,919	\$ 16,353,302	\$ 3,921,920	\$ 2,282,580	\$ 37,440	\$ 25,221,736	\$ 11,354,731	\$ 65,175,352

Modesto City Schools

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds
Year Ended June 30, 2023

	Student Activities Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
Revenues										
Local Control Funding Formula	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000	\$ -	\$ -	\$ -	\$ -	\$ 3,000,000
Federal sources	-	54,925	5,890,097	17,712,049	-	-	-	-	862,462	24,519,533
Other State sources	-	74,926	8,152,378	8,698,836	-	-	-	229,849	-	17,155,989
Other local sources	3,456,105	684,668	43,680	1,040,588	(55,480)	708,421	456	18,306,435	392,621	24,577,494
Total revenues	3,456,105	814,519	14,086,155	27,451,473	2,944,520	708,421	456	18,536,284	1,255,083	69,253,016
Expenditures										
Current										
Instruction	-	1,143,877	4,002,685	-	-	-	-	-	-	5,146,562
Instruction-related activities										
Supervision of instruction	-	104,997	3,689,929	-	-	-	-	-	-	3,794,926
School site administration	-	181,876	-	-	-	-	-	-	-	181,876
Pupil services										
Food services	-	-	355,136	22,265,054	-	-	-	-	-	22,620,190
All other pupil services	-	46,163	374,691	-	-	-	-	-	-	420,854
Administration										
All other administration	-	-	835,371	680,334	-	7,030	-	-	-	1,522,735
Plant services	-	66,659	434,235	997,882	3,260,556	204	-	-	-	4,759,536
Ancillary services	3,311,495	-	-	-	-	-	-	-	-	3,311,495
Community services	-	-	4,395,302	-	-	-	-	-	-	4,395,302
Facility acquisition and construction	-	-	350,861	-	447,797	143,242	-	-	-	941,900
Debt service										
Principal	-	-	-	-	-	76,984	-	16,205,000	-	16,281,984
Interest and other	-	-	-	-	-	-	-	2,640,181	862,462	3,502,643
Total expenditures	3,311,495	1,543,572	14,438,210	23,943,270	3,708,353	227,460	-	18,845,181	862,462	66,880,003
Excess (Deficiency) of Revenues Over Expenditures	144,610	(729,053)	(352,055)	3,508,203	(763,833)	480,961	456	(308,897)	392,621	2,373,013
Other Financing Sources (Uses)										
Transfers in	-	354,871	117,066	-	3,000,000	-	-	-	770,857	4,242,794
Premium on bond issuance	-	-	-	-	-	-	-	7,769,941	-	7,769,941
Transfers out	-	-	-	(386,993)	-	(170,284)	-	(6,000)	-	(563,277)
Net Financing Sources (Uses)	-	354,871	117,066	(386,993)	3,000,000	(170,284)	-	7,763,941	770,857	11,449,458

Modesto City Schools

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds
Year Ended June 30, 2023

	Student Activities Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
Net Change in Fund Balances	144,610	(374,182)	(234,989)	3,121,210	2,236,167	310,677	456	7,455,044	1,163,478	13,822,471
Fund Balance - Beginning	3,173,607	380,330	1,503,630	10,661,810	803,266	1,971,903	36,984	17,766,692	10,191,253	46,489,475
Fund Balance - Ending	<u>\$ 3,318,217</u>	<u>\$ 6,148</u>	<u>\$ 1,268,641</u>	<u>\$13,783,020</u>	<u>\$ 3,039,433</u>	<u>\$ 2,282,580</u>	<u>\$ 37,440</u>	<u>\$ 25,221,736</u>	<u>\$11,354,731</u>	<u>\$ 60,311,946</u>

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, 2023. 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). Because the schedule presents only a selected portion of the operations of the Modesto City Schools, it is not intended to and does not present the net position, changes in net position or fund balances of Modesto City Schools.

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, 2023, the District used food commodities totaling \$1,643,478.

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, Child Development: Coronavirus Response and Relief Supplemental Apportionments Act One-Time Stipend prior year revenues expended in the current year and unspent current year revenues received for Child Development: ARP California State Preschool Program One-Time Stipend, Child Care and Development Block Grant, Child and Adult Care Food Program (CACFP) and CACFP – Cash in Lieu of Commodities.

Description	<u>Federal Financial Assistance Listing Number</u>	<u>Amount</u>
Total Federal Revenues reported on the financial statements		\$ 94,922,662
Federal interest subsidy	Not Available	(862,462)
COVID-19, Child Development: Coronavirus Response and Relief Supplemental Apportionments Act One-Time Stipend	93.575	71,700
COVID-19, Child Development: ARP California State Preschool Program One-Time Stipend	93.596	177,714
Child and Adult Care Food Program	10.558	8,933
Child and Adult Care Food Program - Cash in Lieu of Commodities	10.558	193
Total Federal Financial Assistance		<u>\$ 94,318,740</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 Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46207.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

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

These schedules are 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, 2023

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 (*Government Auditing Standards*), the 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, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated January 31, 2024.

Adoption of New Accounting Standard

As discussed in Note 1 to Note 18 the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2022, to restate beginning net position. Our opinions are not modified with respect to this matter.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the printed text of the firm's name and date.

Fresno, California
January 31, 2024



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

Opinion on Each Major Federal Program

We have audited Modesto City Schools’ (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2023. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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.

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

Fresno, California
January 31, 2024



Independent Auditor's Report on State Compliance

To the Governing Board
Modesto City Schools
Modesto, California

Report on Compliance

Qualified and Unmodified Opinions on State Compliance

We have audited Modesto City Schools' (the District) compliance with the requirements specified in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the District's state program requirements identified below for the year ended June 30, 2023.

Qualified Opinion on Attendance Accounting and Reporting

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023.

Unmodified Opinion on Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023, except as described in the accompanying Schedule of Findings and Questioned Costs.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Matter Giving Rise to Qualified Opinion on Attendance Accounting and Reporting

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Attendance Accounting and Reporting, Finding 2023-001.

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.

- Obtain an understanding of the District’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal controls over compliance. Accordingly, we express no such opinion; and.
- Select and test transactions and records to determine the District’s compliance with the state laws and regulations applicable to the following items:

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No (see below)
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
Comprehensive School Safety Plan	Yes
District of Choice	No (see below)
Home to School Transportation Reimbursement	Yes
Independent Study Certification for ADA Loss Mitigation	Yes
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No (see below)
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No (see below)
Immunizations	No (see below)
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	No (see below)
Career Technical Education Incentive Grant	Yes
Transitional Kindergarten	Yes

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Charter Schools	
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)
Annual Instructional Minutes - Classroom Based	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 2022-2023 that were in Kindergarten in 2021-2022.

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 Juvenile Court Schools procedures because the program is not offered by the District.

We did not perform Middle or Early College High Schools procedures because the program is not offered by the District.

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

The District did not elect to operate as a school district of choice; therefore, we did not perform procedures related to District of Choice.

We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

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.

The District was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

We did not perform Expanded Learning Opportunities Grant procedures because all grant funds were expended in the prior year.

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

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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 *2022-2023 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 31, 2024



Schedule of Findings and Questioned Costs
June 30, 2023

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 Number
Special Education Cluster	84.027, 84.027A, 84.173, 84.173A
Head Start Cluster	93.600
COVID-19, Elementary and Secondary School Emergency Relief Fund II (ESSER II)	84.425D
COVID-19, American Rescue Plan: Elementary and Secondary School Emergency Relief Fund III (ESSER III)	84.425U
COVID-19, Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC) Program	84.425W
COVID-19, American Rescue Plan - Homeless Children and Youth (ARP-HYC II) Program	84.425W
Dollar threshold used to distinguish between type A and type B programs	\$ 2,829,562
Auditee qualified as low-risk auditee?	Yes

State Compliance

Internal control over state compliance programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for programs	Unmodified
Unmodified for all programs except for the following program which was qualified	

Name of Program

Attendance Accounting and Reporting

None reported.

None reported.

The following finding represents an instance of noncompliance that is required to be reported by the 2022-23 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
10000	Attendance

2023-001 10000 - Attendance Accounting and Reporting

Criteria

According to the 2022-2023 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, attendance reports must be amended for any change in ADA. [*Education Code* Sections 41341 (a)(1) and 14503 (a)]

Condition

During our audit of the Modesto City Schools’ P-2 and Annual Period Report of Attendance for Modesto City Elementary and Modesto High School, we determined that on each District’s Report the average daily attendance (ADA) reported differed from what was reported on each District’s P-2 and Annual Attendance Reports.

Effect

Modesto City Schools will need to revise the P-2 and Annual Period Report of Attendance for each District by the ADA amounts noted in the table below. The questioned cost is \$175,597 and \$495,288 for Modesto City Elementary and Modesto High School, respectively.

	District’s Filed Report		As Adjusted per Audit		Second Period Report Difference	Annual Report Difference
	Second Period Report	Annual Report	Second Period Report	Annual Report		
Regular ADA						
Transitional kindergarten through third	5,927.19	5,988.79	5,943.27	6,088.66	16.08	99.87
Fourth through sixth	4,275.84	4,246.78	4,275.60	4,248.02	(0.24)	1.24
Seventh and eighth	2,719.23	2,695.78	2,719.39	2,703.18	0.16	7.40
Ninth through twelfth	13,878.22	13,574.64	13,921.48	13,799.22	43.26	224.58
Total regular ADA	26,800.48	26,505.99	26,859.74	26,839.08	59.26	333.09
Special Education, Nonpublic, Nonsectarian schools						
Transitional kindergarten through third	2.18	2.33	1.66	2.33	(0.52)	-
Fourth through sixth	5.86	5.73	4.46	5.73	(1.40)	-
Seventh and eighth	7.36	7.23	5.60	7.23	(1.76)	-
Ninth through twelfth	31.23	29.88	23.64	29.92	(7.59)	0.04
Total special education, nonpublic, nonsectarian schools	46.63	45.17	35.36	45.21	(11.27)	0.04
Total ADA	26,847.11	26,551.16	26,895.10	26,884.29	47.99	333.13

Cause

Modesto City Schools found errors within their attendance system leading to incorrect attendance reporting. When a solution to the software issues was obtained, the Principal Apportionment Data Collection (PADC) system was closed for fiscal year 2022-2023. Modesto City Schools had calculated what the correct P-2 and Annual ADA, but were unable to submit revised reports to the California Department of Education.

Repeat Finding

No

Recommendation

The District's internal controls were able to spot errors in the attendance reporting system, but a solution to correct these errors was unable to be found before the due date of revisions. This finding is only due to the District being unable to submit their revised P-2 and Annual reports before the PADC system was closed.

Corrective Action Plan and Views of Responsible Officials

Due to technology issues outside of the District's control, reliable attendance reports were unable to be generated in a timely manner. This time delay caused the District to miss the attendance revision reporting deadline with the CDE. The revisions will be submitted during the next submission availability in February 2024. The District is also working with the software vendor to ensure that reliable calculations can be generated in a timely manner going forward.

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.

State Compliance Findings

2022-001 10000 - Attendance Accounting and Reporting

Criteria

According to the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, attendance reports must be amended for any change in ADA. [*Education Code* Sections 41341 (a)(1) and 14503 (a)]

Condition

During our audit of the Modesto City Schools’ Annual Period Report of Attendance for Modesto City Elementary and Modesto High School, we determined that on each District’s Report the average daily attendance (ADA) reported was the same as what was reported on each District’s P-2 Attendance Report for all programs and grade levels.

Effect

Modesto City Schools will need to revise the Annual Period Report of Attendance for each District by the ADA amounts noted in the table below. There is no fiscal impact for the current year for “Regular ADA” as those programs are funded based on Second Period Report ADA, however; the questioned cost for Special Education, Nonpublic, Nonsectarian Schools is \$32,309 and \$71,322 for Modesto City Elementary and Modesto High School, respectively.

	District’s Annual Report	Reporting Adjustments Per Audit	Unrelated Short Term Independent Study Adjustments	Audited Annual Report
Regular ADA				
Transitional kindergarten through third	5,525.83	25.87	(31.62)	5,520.08
Fourth through sixth	3,965.78	108.84	(23.21)	4,051.41
Seventh and eighth	2,599.21	31.76	(17.11)	2,613.86
Ninth through twelfth	13,358.77	24.52	(57.02)	13,326.27
Total regular ADA	<u>25,449.59</u>	<u>190.99</u>	<u>(128.96)</u>	<u>25,511.62</u>
Special Education, Nonpublic, Nonsectarian Schools				
Transitional kindergarten through third	1.13	0.39	-	1.52
Fourth through sixth	5.02	0.95	-	5.97
Seventh and eighth	4.02	1.42	-	5.44
Ninth through twelfth	28.12	5.83	-	33.95
Total special education, nonpublic, nonsectarian schools	<u>38.29</u>	<u>8.59</u>	<u>-</u>	<u>46.88</u>
Total ADA	<u><u>25,487.88</u></u>	<u><u>199.58</u></u>	<u><u>(128.96)</u></u>	<u><u>25,558.50</u></u>

Cause

The differences appear to be due to data input errors when preparing the Annual Period report.

Repeat Finding

No

Recommendation

Modesto City Schools needs to revise each District's Annual Period Attendance Report of School District Attendance to reflect the audited ADA.

Current Status

Implemented.

2022-002 10000 - Independent Study - Short Term

Criteria or Specific Requirements

According to *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* prescribed in the *California Code of Regulations* and published by the Education Audit Appeals Panel, attendance reports must be amended for any change in Average Daily Attendance (ADA) [*Education Code* Sections 41341(a)(1) and 14503(a)].

Condition

During our audit of the Modesto City Schools short-term independent study attendance (Modesto City Elementary and Modesto High School), it was determined to be un-auditable due to no contracts and/or work samples were able to be provided to the auditor for any of the students selected for testing from the various sites selected for testing.

Questioned Costs

There will be no loss of State apportionment revenue associated with this finding as each District will be funded on the prior year average daily attendance. Had the districts not been funded on prior year attendance, the 95.65 decrease in average daily attendance would have lost the Elementary District approximately \$769,655 and the High School District approximately \$379,360, respectively, in State apportionment revenue.

Effect

There is no fiscal impact from this Short-Term Independent Study attendance finding; however, based on the auditor’s inability to audit the attendance for any of the students selected for testing, no reasonable level of assurance could be obtained that the Short-Term Independent Study attendance at the remaining sites was accurately reported. Therefore, all ADA generated from the Short-Term Independent Study program is being disallowed. The table below reports the reduction in ADA for each District’s P2 and Annual Attendance reports by grade span.

	Filed Second Period Report	Independent Study related Adjustments Per Audit	Adjusted Second Period Report	Filed Annual Report	Independent Study related Adjustments Per Audit	Other Unrelated Adjustments Per Audit	Adjusted Annual Report
Regular ADA							
Transitional kindergarten through third	5,525.83	(29.62)	5,496.21	5,525.83	(31.62)	25.87	5,520.08
Fourth through sixth	3,965.78	(23.94)	3,941.84	3,965.78	(23.21)	108.84	4,051.41
Seventh and eighth	2,599.21	(11.08)	2,588.13	2,599.21	(17.11)	31.76	2,613.86
Ninth through twelfth	13,358.77	(31.01)	13,327.76	13,358.77	(57.02)	24.52	13,326.27
Total regular ADA	25,449.59	(95.65)	25,353.94	25,449.59	(128.96)	190.99	25,511.62

Cause

It appears that the required Short-Term Independent Study attendance documentation (contracts and work samples) were either not completed, obtained from students or not retained by staff overseeing the students/program.

Repeat Finding

No

Recommendation

Modesto City Schools needs to revise each District’s Second Period Attendance Report of School District Attendance and the Annual Period Attendance Report of School District Attendance to reflect the audited ADA.

Current Status

Implemented.