

**MODESTO CITY SCHOOLS
(MODESTO CITY SCHOOL DISTRICT)
(MODESTO HIGH SCHOOL DISTRICT)**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

MODESTO CITY SCHOOLS

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Modesto City Schools
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Modesto City Schools (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Modesto City Schools, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 13, budgetary comparison information and postemployment benefits information on pages 59 and 60, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Modesto City Schools' basic financial statements. The supplementary information, such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

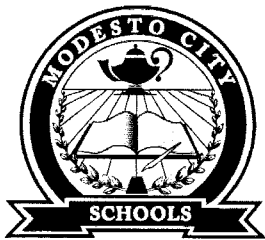
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the Modesto City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Modesto City Schools' internal control over financial reporting and compliance.

Vannick, Trine, Day & Co, LLP

Fresno, California
December 12, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Board of Education

Nancy Cline
President

Cindy Marks
Vice President

Steven Grenbeaux
Board Member

Stacie Morales
Board Member

Amy Elliott Neumann
Board Member

Rubén Villalobos
Board Member

Sue Zwahlen
Board Member

Administration

Pamela Able
Superintendent

Virginia Johnson
Associate Superintendent
Educational Services

Craig Rydquist
Associate Superintendent
Human Resources

Julie A. Chapin
Associate Superintendent
Business Services
Chief Business Official

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, 2013. 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 and business-type activities separately. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). 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 District's two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities 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.



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MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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 separate the District activities as follows:

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

The 2012-2013 year marked the fifth year the District has experienced deficit funding and deferral payments of apportionments from the State. The District met this challenge through on-going budget reductions to programs and the concessions of all staff; Modesto Teachers Association, Classified School Employees Association and Management.

During 2012-2013, voters approved Proposition 30 and the Education Protection Account, which eliminated the need for additional reductions to education beyond those already in place. As a result of the passage of Proposition 30, the District did a partial restoration of furlough days for all employee groups for the second (2nd) semester of the school year.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$323 million for the fiscal year ended June 30, 2013. Of this amount, \$61 million was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Table 1

(Amounts in millions)

	Governmental Activities		
	2013	2012	Change
Assets			
Current and other assets	\$ 148	\$ 149	\$ (1)
Capital assets	352	352	-
Total Assets	<u>500</u>	<u>501</u>	<u>(1)</u>
Liabilities			
Current liabilities	29	22	7
Long-term liabilities	148	148	-
Total Liabilities	<u>177</u>	<u>170</u>	<u>7</u>
Net Position			
Net investment in capital assets	216	217	(1)
Restricted	46	45	1
Unrestricted	61	69	(8)
Total Net Position	<u>\$ 323</u>	<u>\$ 331</u>	<u>\$ (8)</u>

The \$61 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by 13 percent (\$61 million compared to \$69 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.

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Table 2

(Amounts in millions)

	Governmental Activities		
	2013	2012	Change
Revenues			
Program revenues:			
Charges for services	\$ 3	\$ 4	\$ (1)
Operating grants and contributions	66	72	(6)
Capital grants and contributions	-	-	-
General revenues:			
Federal and State aid not restricted	145	150	(5)
Property taxes	59	51	8
Other general revenues	10	9	1
Total Revenues	<u>283</u>	<u>286</u>	<u>(3)</u>
Expenses			
Instruction-related	195	192	3
Student support services	30	29	1
Administration	12	12	-
Plant services	30	28	2
Other	24	23	1
Total Expenses	<u>291</u>	<u>284</u>	<u>7</u>
Change in Net Position	<u>\$ (8)</u>	<u>\$ 2</u>	<u>\$ (10)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$291 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$59 million because the cost was paid by those who benefited from the programs (\$3 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$66 million). The District paid for the remaining "public benefit" portion of our governmental activities with \$155 million in Federal and State funds and other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: regular program instruction, student services, administration, and plant 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.

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction-related	\$ 195	\$ 192	\$ 160	\$ 152
Student support services	30	29	11	9
Administration	12	12	10	10
Plant services	30	28	29	27
Other	24	23	12	10
Total	\$ 291	\$ 284	\$ 222	\$ 208

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$108 million, which is a decrease of \$6 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances	
	June 30, 2013	June 30, 2012
General	\$ 75	\$ 73
Non-Major Funds	33	41
Total	\$ 108	\$ 114

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on September 9, 2013. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the annual report.

Modesto City Schools receives revenue for the General Fund from several sources. The primary sources are Revenue Limit, Federal Revenue, and State Revenue. For 2012-2013, Revenue Limit had a positive COLA of 3.24 percent and an increased deficit factor of 22.272 percent. Governor Brown approved the 2012-2013 State budget in June 2012. In November 2012, the voters approved Proposition 30 in order to reduce further reductions to education and maintain the deficit factor of 22.272 percent. The Federal Revenue had prior stimulus dollars that were spent to sustain programs and reduce the impact to the fund balance. The State Revenue was affected by a combination of positive COLA, increased deficits and a decrease in deferrals.

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had \$352 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. There was no significant change from last year (Table 5).

Table 5

(Amounts in millions)

	Governmental Activities	
	2013	2012
Land and construction in progress	\$ 27	\$ 21
Buildings and improvements	317	325
Equipment	8	6
Total	\$ 352	\$ 352

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

Long-Term Obligations

At the end of this year, the District had \$147 million in long-term obligations outstanding versus \$148 million last year, a decrease of one percent. The long-term obligations consisted of:

Table 6

(Amounts in millions)

	Governmental Activities	
	2013	2012
General obligation bonds (financed with property taxes)	\$ 115	\$ 117
Certificates of participation	-	3
Capital leases	4	3
Qualified school construction bonds	16	16
Other postemployment benefits	9	6
Teacher retirement incentive	1	1
Other	2	2
Total	\$ 147	\$ 148

The District's Elementary and High School general obligation bond ratings are Standard & Poor's A+, Stable Outlook and Fitch Rating AA- Negative Outlook. Fitch Rating downgraded from a Stable Outlook to a Negative Outlook because of concerns that the District's financial position may decrease materially as a result of poor state funding, exhaustion of the one-time federal funds, and strained relations with bargaining units. The State limits the amount of general obligation debt that districts can issue to 1.25 percent of the assessed value of all taxable property within the District's boundaries.

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. More detailed information about the long-term obligations is in Notes to Financial Statements.

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2012-2013 ARE NOTED BELOW:

The District completed three significant projects in 2012-2013:

- \$629,844 Downey High School culinary arts academy renovation,
- \$540,232 Hanshaw Middle School lower gym and locker room reroofing and ventilation units replacement,
- \$77,551 Lakewood Elementary School new play structure.

The District began the construction phase of three significant projects in 2012-2013:

- \$2.4 million Nutrition Services central kitchen reroofing and HVAC replacement – 85 percent complete,
- \$3.7 million Gregori High School stadium improvement – 98 percent complete, and
- \$1.2 million Beyer High School gymnasium bleacher replacement – 61 percent complete.

The District was in the design phase of three significant projects in 2012-2013:

- \$0.5 million Fairview Elementary School parking lot addition and renovation,
- \$0.5 million joint agricultural facility on Church Street off of Milnes Road, and
- \$3.0 million Enochs High School swimming pool.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2013-2014 year, the governing board and staff continue to seek ways of providing a quality program within the on-going constraints of decreased revenue and deferrals.

With the passage of this year's state budget, there are many factors that may affect Modesto City Schools finances for 2013-2014. The long-existing mechanism for funding schools, Revenue Limit, has been replaced by the Local Control Funding Formula (LCFF), which fundamentally changes the way schools are funded. In addition, the 2013-2014 State budget includes funding under the California Clean Energy Jobs Act (Proposition 39) and Common Core.

LCFF eliminates more than 40 categorical programs and establishes weighting factors to target funding for the needs of specific students. The LCFF is proposed to be implemented over an eight year period. The District will have its own unique progress rate toward the funding goal for 2020-2021.

California Clean Energy Jobs Act (Proposition 39) provides funding on a competitive basis to support energy efficiency. Funding will be distributed on a per-average daily (ADA) basis and weighted based on 11 different climate regions.

The state budget also includes \$1 billion in one-time money to support the implementation of Common Core State Standards. The funding will be distributed on a per-ADA basis and are required to be spent by June 30, 2015.

MODESTO CITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Within expenditures, the largest impact can be seen in salaries and benefits. Due to the restoration of furloughs and other salary concessions, in addition to an off-the-schedule 1 percent payment to all employee groups, budgeted salary and benefit costs increased by nearly 12 percent.

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 Julie A. Chapin, Associate Superintendent, Business Services, at Modesto City Schools District, 426 Locust Street, Modesto, California, 95351, 209-550-3301 ext. 5406, or e-mail at chapin.j@monet.k12.ca.us.

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MODESTO CITY SCHOOLS

STATEMENT OF NET POSITION JUNE 30, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 95,818,967
Receivables	49,242,958
Prepaid expenses	686,769
Deferred charges	1,345,719
Stores inventories	560,760
Capital assets not being depreciated	27,455,358
Capital assets being depreciated	446,120,479
Accumulated depreciation	(121,243,890)
Total Assets	499,987,120
LIABILITIES	
Accounts payable	19,834,862
Interest payable	116,641
Deferred revenue	912,533
Claims liability	8,535,000
Current portion of long-term obligations	12,130,959
Noncurrent portion of long-term obligations	135,467,059
Total Liabilities	176,997,054
NET POSITION	
Net investment in capital assets	215,802,583
Restricted for:	
Debt service	10,072,899
Capital projects	13,415,213
Educational programs	15,612,230
Other activities	7,477,595
Unrestricted	60,609,546
Total Net Position	\$ 322,990,066

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

MODESTO CITY SCHOOLS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 160,332,297	\$ 175,579	\$ 24,753,152	\$ 342,109
Instruction-related activities:				
Supervision of instruction	12,098,391	43,413	8,113,505	-
Instructional library, media, and technology	3,633,811	245	294,172	-
School site administration	19,472,752	1,326	1,451,113	-
Pupil services:				
Home-to-school transportation	3,140,421	27,442	1,387,073	-
Food services	12,311,118	1,794,244	9,042,362	-
All other pupil services	14,866,990	32,497	7,382,610	-
Administration:				
Data processing	3,543,365	-	50,000	-
All other administration	8,270,834	90,533	1,488,626	-
Plant services	29,901,178	104,129	870,553	-
Ancillary services	1,175,388	99	4,626	-
Community services	6,692,101	91,194	5,996,553	-
Enterprise services	3,192,772	-	-	-
Interest on long-term obligations	7,776,181	-	-	-
Other outgo	5,186,267	271,865	5,594,893	-
Total Governmental Activities	\$ 291,593,866	\$ 2,632,566	\$ 66,429,238	\$ 342,109
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Interagency revenues				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

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

**Net (Expenses)
Revenues and
Changes in
Net Position**

**Governmental
Activities**

\$ (135,061,457)

(3,941,473)

(3,339,394)

(18,020,313)

(1,725,906)

(1,474,512)

(7,451,883)

(3,493,365)

(6,691,675)

(28,926,496)

(1,170,663)

(604,354)

(3,192,772)

(7,776,181)

680,491

(222,189,953)

48,494,509

8,453,718

1,960,757

144,967,684

559,685

2,877,019

6,848,985

214,162,357

(8,027,596)

331,017,662

\$ 322,990,066

MODESTO CITY SCHOOLS

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Deposits and investments	\$ 45,112,636	\$ 33,447,549	\$ 78,560,185
Receivables	45,059,177	4,123,359	49,182,536
Due from other funds	1,532,358	153,776	1,686,134
Prepaid expenditures	120,980	19,089	140,069
Stores inventories	371,741	189,019	560,760
Total Assets	\$ 92,196,892	\$ 37,932,792	\$ 130,129,684
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 17,029,213	\$ 2,332,526	\$ 19,361,739
Due to other funds	151,764	1,534,370	1,686,134
Deferred revenue	212,909	699,624	912,533
Total Liabilities	17,393,886	4,566,520	21,960,406
Fund Balances:			
Nonspendable	542,721	208,787	751,508
Restricted	15,533,336	19,720,618	35,253,954
Committed	-	2,321,671	2,321,671
Assigned	12,122,541	11,115,196	23,237,737
Unassigned	46,604,408	-	46,604,408
Total Fund Balances	74,803,006	33,366,272	108,169,278
Total Liabilities and Fund Balances	\$ 92,196,892	\$ 37,932,792	\$ 130,129,684

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

MODESTO CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2013

Total Fund Balance - Governmental Funds		\$ 108,169,278
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	\$ 473,575,837	
Accumulated depreciation is	<u>(121,243,890)</u>	
Net Capital Assets		352,331,947
Expenditures relating to issuance of debt were recognized on modified accrual basis, but are amortized over the life of the debt on the accrual basis. The balance to amortize is reported on the Statement of Net Position as deferred charges.		1,345,719
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(116,641)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		8,857,781
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	115,155,203	
Compensated absences	780,162	
Capital leases	4,105,537	
Qualified school construction bonds	16,420,000	
Compensation benefits	662,213	
Other postemployment benefits	9,049,719	
Teacher retirement incentive	576,560	
Gregori traffic mitigation settlement	<u>848,624</u>	
Total Long-Term Obligations		(147,598,018)
Total Net Position - Governmental Activities		<u>\$ 322,990,066</u>

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

MODESTO CITY SCHOOLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
Revenue limit sources	\$ 160,999,982	\$ -	\$ 160,999,982
Federal sources	22,096,025	15,120,435	37,216,460
Other State sources	56,132,055	5,821,436	61,953,491
Other local sources	7,069,799	13,504,109	20,573,908
Total Revenues	246,297,861	34,445,980	280,743,841
EXPENDITURES			
Current			
Instruction	146,009,529	2,389,428	148,398,957
Instruction-related activities:			
Supervision of instruction	10,134,448	1,748,526	11,882,974
Instructional library, media and technology	3,496,631	-	3,496,631
School site administration	18,652,459	114,317	18,766,776
Pupil services:			
Home-to-school transportation	5,433,358	-	5,433,358
Food services	1,172	11,899,298	11,900,470
All other pupil services	14,528,847	22,439	14,551,286
Administration:			
Data processing	3,474,212	-	3,474,212
All other administration	6,700,796	873,235	7,574,031
Plant services	27,023,547	1,599,003	28,622,550
Facility acquisition and construction	714,721	8,114,266	8,828,987
Ancillary services	1,153,819	-	1,153,819
Community services	3,415,962	2,916,786	6,332,748
Other outgo	5,188,294	-	5,188,294
Enterprise services	342,664	-	342,664
Debt service			
Principal	321,337	11,359,044	11,680,381
Interest and other	76,953	1,254,771	1,331,724
Total Expenditures	246,668,749	42,291,113	288,959,862
Excess (Deficiency) of Revenues Over Expenditures	(370,888)	(7,845,133)	(8,216,021)
Other Financing Sources (Uses)			
Transfers in	3,439,014	2,870,783	6,309,797
Other sources	-	2,440,000	2,440,000
Transfers out	(1,408,059)	(4,898,088)	(6,306,147)
Net Financing Sources (Uses)	2,030,955	412,695	2,443,650
NET CHANGE IN FUND BALANCES	1,660,067	(7,432,438)	(5,772,371)
Fund Balance - Beginning	73,142,939	40,798,710	113,941,649
Fund Balance - Ending	\$ 74,803,006	\$ 33,366,272	\$ 108,169,278

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

MODESTO CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds		\$ (5,772,371)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation expense	\$ (10,236,721)	
Capital outlays	<u>10,348,561</u>	
Net Expense Adjustment		111,840
In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue, in the statement of activities, only the gain or loss from disposals are reported.		(69,555)
Capital assets to be acquired next year were financed this year with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position.		(2,440,000)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) 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 year, there were special termination benefits paid in excess of the amounts earned in the amount of \$478,960. Vacation earned was more than the amounts used by \$57,157.		421,803
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the Statement of Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:		(2,651,212)
Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a deferred charge and amortized on the Statement of Net Position over the live of the bonds. The amount of issuance costs amortized during the year was:		(132,426)

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

MODESTO CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2013

Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$ 7,790,000
Certificates of participation	2,930,000
Capital lease obligations	862,405
Child care revolving loan	91,000

The District entered into a settlement agreement with Stanislaus County regarding traffic mitigation impacts related to the District's construction of Gregori High School in Salida. The settlement agreement is reported as a long-term obligation on the Statement of Net Position but is not recorded in the fund financial statements.

6,976

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities includes additional accumulated interest that was accreted on the District's capital appreciation general obligation bonds and accrued interest payable.

(6,312,031)

An internal service fund is used by the District's management to charge the costs of certain health and welfare insurance programs to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

(2,864,025)

Change in Net Position of Governmental Activities

\$ (8,027,596)

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

MODESTO CITY SCHOOLS

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2013

	<u>Self Insurance Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 17,258,782
Receivables	60,422
Prepaid expenses	<u>546,700</u>
Total Current Assets	<u>17,865,904</u>
LIABILITIES	
Current Liabilities	
Accounts payable	473,123
Claim liabilities	<u>8,535,000</u>
Total Current Liabilities	<u>9,008,123</u>
NET POSITION	
Restricted	<u>8,857,781</u>
Total Net Position	<u>\$ 8,857,781</u>

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

MODESTO CITY SCHOOLS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

	Self Insurance Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	\$ 6,404,201
Total Operating Revenues	6,404,201
OPERATING EXPENSES	
Payroll costs	324,729
Supplies and materials	129,739
Facility rental	20,418
Other operating cost	8,875,989
Total Operating Expenses	9,350,875
Operating Loss	(2,946,674)
NONOPERATING REVENUES/(USES)	
Interest income	86,299
Transfers out	(3,650)
Total Nonoperating Revenues and Uses	82,649
Change in Net Position	(2,864,025)
Total Net Position - Beginning	11,721,806
Total Net Position - Ending	\$ 8,857,781

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

MODESTO CITY SCHOOLS

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2013

	Self Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from premiums	\$ 6,376,847
Cash payments to employees for services	(324,729)
Other operating cash payments	(8,206,997)
Net Cash Used for Operating Activities	<u>(2,154,879)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating transfers	(3,650)
Net Cash Used for Noncapital Financing Activities	<u>(3,650)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	86,299
Net Cash Provided by Investing Activities	<u>86,299</u>
Net Decrease in Cash and Cash Equivalents	(2,072,230)
Cash and Cash Equivalents - Beginning	19,331,012
Cash and Cash Equivalents - Ending	<u>\$ 17,258,782</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (2,946,674)
Changes in assets and liabilities:	
Receivables	(27,354)
Prepaid expenses	(2,500)
Accrued liabilities	834,249
Due to other funds	(12,600)
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (2,154,879)</u>

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

MODESTO CITY SCHOOLS

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2013

	Scholarship Trusts	Agency Funds
ASSETS		
Deposits and investments	\$ 1,470,285	\$ 1,499,717
Total Assets	<u>1,470,285</u>	<u>\$ 1,499,717</u>
LIABILITIES		
Due to student groups		
Elementary Schools Combined Account	-	\$ 346,916
Beyer High School	-	106,143
Davis High School	-	79,602
Downey High School	-	327,779
Enochs High School	-	233,279
Gregori High School	-	91,704
Johansen High School	-	221,682
Modesto High School	-	92,612
Total Liabilities	<u>-</u>	<u>\$ 1,499,717</u>
NET POSITION-RESTRICTED		
Elementary Schools Combined Account	135,169	
Beyer High School	22,087	
Davis High School	183,648	
Downey High School	38,078	
Enochs High School	1,724	
Gregori High School	1,250	
Johansen High School	16,040	
Modesto High School	1,072,289	
Total Net Position	<u>\$ 1,470,285</u>	

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

MODESTO CITY SCHOOLS

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2013

	Scholarship Trusts
ADDITIONS	
Private donations and scholarship earnings	
Elementary Schools Combined Account	\$ 26,744
Beyer High School	11,587
Davis High School	813
Downey High School	633
Enochs High School	1,604
Gregori High School	250
Johansen High School	15,274
Modesto High School	108,713
Total Additions	165,618
DEDUCTIONS	
Scholarships awarded and other expenditures	
Elementary Schools Combined Account	20,377
Beyer High School	5,557
Davis High School	500
Downey High School	5,000
Enochs High School	6,833
Gregori High School	-
Johansen High School	25,390
Modesto High School	42,873
Total Deductions	106,530
Change in Net Position	59,088
Net Position - Beginning	1,411,197
Net Position - Ending	\$ 1,470,285

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

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$625,169, \$864,213, and \$10,476, respectively, and a decrease in liabilities of \$238,903.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues 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 State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). 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), or the 2006 State Schools Facilities Fund (Proposition 1D) 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.).

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

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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

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

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Net position should be reported as restricted when constraints placed on net position use 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 net position use.

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. 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.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

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, if measurable, and typically paid within 60 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2013, 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

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 used.

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 obligations of the governmental funds.

Deferred Issuance Costs

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2013, 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.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 liabilities. 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 \$46,577,937 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.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. 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. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

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.

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 78,560,185
Internal service fund	17,258,782
Subtotal Deposits and Investments, Statement of Net Position	95,818,967
Fiduciary funds	2,970,002
Total Deposits and Investments	<u>\$ 98,788,969</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 2,970,002
Cash in revolving	50,679
Cash with fiscal agent	1,506,184
Investments	94,262,104
Total Deposits and Investments	<u>\$ 98,788,969</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.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and LAIF.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
County Pool	\$ 91,863,796	\$ -	\$ 91,863,796	\$ -	\$ -
California Asset Management Program (CAMP) Pool	2,222,750	2,222,750	-	-	-
State Investment Pool	209,431	209,431	-	-	-
Total	<u>\$ 94,295,977</u>	<u>\$ 2,432,181</u>	<u>\$ 91,863,796</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool and LAIF are not required to be rated, nor have they been rated as of June 30, 2013.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
County Pool	\$ 91,863,796	N/A	\$ -	\$ -	\$ 91,863,796
California Asset Management Program (CAMP) Pool	2,222,750	N/A	-	-	2,222,750
State Investment Pool	209,431	N/A	-	-	209,431
Total	<u>\$ 94,295,977</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,295,977</u>

N/A - Not applicable

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, \$1,778,777 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.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Self Insurance Fund
Federal Government				
Categorical aid	\$ 6,953,340	\$ 2,156,357	\$ 9,109,697	\$ -
State Government				
Apportionment	26,110,903	-	26,110,903	-
Other state	11,231,365	1,224,510	12,455,875	-
Local sources	763,569	742,492	1,506,061	60,422
Total	<u>\$ 45,059,177</u>	<u>\$ 4,123,359</u>	<u>\$ 49,182,536</u>	<u>\$ 60,422</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 19,991,733	\$ -	\$ -	\$ 19,991,733
Construction in progress	1,648,522	7,181,841	1,366,738	7,463,625
Total Capital Assets Not Being Depreciated	<u>21,640,255</u>	<u>7,181,841</u>	<u>1,366,738</u>	<u>27,455,358</u>
Capital Assets being depreciated				
Land improvements	29,953,538	152,866	-	30,106,404
Buildings and improvements	398,891,102	1,213,872	-	400,104,974
Furniture and equipment	14,187,493	3,166,720	1,445,112	15,909,101
Total Capital Assets Being Depreciated	<u>443,032,133</u>	<u>4,533,458</u>	<u>1,445,112</u>	<u>446,120,479</u>
Less Accumulated Depreciation				
Land improvements	5,198,874	1,312,709	-	6,511,583
Buildings and improvements	98,902,057	8,159,613	-	107,061,670
Furniture and equipment	8,281,795	764,399	1,375,557	7,670,637
Total Accumulated Depreciation	<u>112,382,726</u>	<u>10,236,721</u>	<u>1,375,557</u>	<u>121,243,890</u>
Governmental Activities Capital Assets, Net	<u>\$ 352,289,662</u>	<u>\$ 1,478,578</u>	<u>\$ 1,436,293</u>	<u>\$ 352,331,947</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

Instruction	\$ 8,739,549
Instructional library, media, and technology	23,102
School site administration	89,993
Home-to-school transportation	335,457
Food services	408,413
Community services	279,649
Enterprise	1,790
All other general administration	241,098
Plant services	117,670
Total Depreciation Expenses, Governmental Activities	<u>\$ 10,236,721</u>

NOTE 5 - 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, 2013, are as follows:

	Interfund Receivables	Interfund Payables
Major Governmental Fund		
General	\$ 1,532,358	\$ 151,764
Total Major Governmental Fund	<u>1,532,358</u>	<u>151,764</u>
Non-Major Governmental Funds		
Adult Education	11,945	348,145
Child Development	157	157,546
Cafeteria	-	1,020,239
Building	-	2,014
Capital Facilities	-	6,426
County School Facilities	2,014	-
Special Reserve Capital Outlay	139,660	-
Total Non-Major Governmental Funds	<u>153,776</u>	<u>1,534,370</u>
Total All Governmental Funds	<u>\$ 1,686,134</u>	<u>\$ 1,686,134</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

The Cafeteria Fund owes the General Fund for indirect costs.	\$ 521,664
The Adult Education Fund owes the General Fund for facilities use expenses.	206
The Adult Education Fund owes the General Fund for indirect costs.	7,983
The Child Development Fund owes the General Fund for a CalPERS reduction adjustment and indirect costs.	157,546
The Adult Education Fund owes the General Fund for the Tier III categorical flexibility sweep.	339,956
The Cafeteria Fund owes the General Fund for routine repair and maintenance costs.	466,513
The Cafeteria Fund owes the General Fund for Nutritional Service Center custodial and utilities costs.	32,064
The General Fund owes the Adult Education Fund for Adult Section 132 (resource 3555) expenses.	11,945
The General Fund owes the Child Development Fund for a payroll error and indirect cost corrections.	157
The Capital Facilities Fund owes the General Fund for three percent administrative fee for collection of developer fees.	6,426
The Building Fund owes the County School Facilities Fund for Gregori project funding.	2,014
The General Fund owes the Special Reserve Capital Outlay Fund for future equipment replacement.	139,660
Total	<u>\$ 1,686,134</u>

Operating Transfers

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

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Interfund transfers for the year ended June 30, 2013, consisted of the following:

The General Fund transferred to the Debt Service Fund for the required annual sinking fund deposit for the lease revenue bonds.	\$ 280,000
The Special Reserve Capital Outlay Fund transferred to the Debt Service Fund for the required annual sinking fund deposit for the lease revenue bonds.	465,194
The General Fund transferred to the Special Reserve Capital Outlay Fund the annual bus replacement contribution.	920,000
The General Fund transferred to the Special Reserve Capital Outlay Fund the District mileage allocation to bus replacement.	153,615
The County School Facilities Fund transferred to the General Fund for reimbursement of project expenses to ROP from the state grant.	94,743
The County School Facilities Fund transferred to the Special Reserve Capital Outlay Fund to return excess funding for the Gregori High School construction project.	458,000
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the cameras at the Davis project.	8,513
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the Modesto High weight room renovation project.	8,828
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the Davis Little Theater renovation project.	61,318
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the Johansen softball field renovation project.	5,000
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the Elliot administration office renovation project.	8,580
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the Elliot outside lighting project.	39,227
The Special Reserve Capital Outlay Fund transferred to the Building Fund for a change in funding source for the cameras at the Elliot project.	3,972
The Special Reserve Capital Outlay Fund transferred to the General Fund for reclassification of the lease purchase agreement funding for the purchase of 15 school buses.	2,527,942
The Bond Interest and Redemption Fund transferred to the Special Reserve Capital Outlay Fund to reclassify the bond trustee fee for the elementary general obligation bonds.	530
The Bond Interest and Redemption Fund transferred to the Special Reserve Capital Outlay Fund to reclassify the bond trustee fee for the high school general obligation bonds.	530
The Adult Education Fund transferred to the General Fund for the Tier III categorical flexibility sweep.	339,741
The Cafeteria Fund transferred to the General Fund for the Nutritional Service Center allocation for routine repair and maintenance.	466,513
The Capital Facilities Fund transferred to the General Fund for the administrative fee for developer fees collected.	6,426
The Self Insurance Fund transferred to the General Fund for reimbursement of salary costs.	3,650
The General Fund transferred to the Child Development Fund for reserved spaces for students in Special Education.	18,570
The General Fund transferred to the Special Reserve Capital Outlay Fund for the auditorium replacement.	35,874
The Building Fund transferred to the County School Facilities Fund for the Gregori High School project.	403,031
Total	<u>\$ 6,309,797</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 6 - PREPAID EXPENDITURES

Prepaid expenditures at June 30, 2013, consisted of the following:

	Governmental Activities
General vendors - General Fund	\$ 120,980
General vendors - Non-Major Governmental Funds	19,089
General vendors - Internal Service Fund	546,700
Total entity-wide	<u>\$ 686,769</u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total	Self Insurance Fund
Vendor payables	\$ 2,143,905	\$ 1,936,061	\$ 4,079,966	\$ 473,123
Salaries and benefits	9,345,376	396,465	9,741,841	-
State apportionment	5,539,932	-	5,539,932	-
Total	<u>\$ 17,029,213</u>	<u>\$ 2,332,526</u>	<u>\$ 19,361,739</u>	<u>\$ 473,123</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 64,380	\$ 521,091	\$ 585,471
State categorical aid	148,529	178,533	327,062
Total	<u>\$ 212,909</u>	<u>\$ 699,624</u>	<u>\$ 912,533</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
General obligation bonds:					
Elementary bonds	\$ 24,186,617	\$ 1,298,319	\$ 1,790,000	\$ 23,694,936	\$ 1,855,000
High school district bonds	92,438,708	5,021,559	6,000,000	91,460,267	6,355,000
Certificates of participation:					
2001 Issuance	2,930,000	-	2,930,000	-	-
Compensated absences - net	723,005	57,157	-	780,162	-
Capital leases	2,527,942	2,440,000	862,405	4,105,537	1,395,159
Child care revolving loan	91,000	-	91,000	-	-
Qualified school construction bonds	16,420,000	-	-	16,420,000	-
Compensation benefits	662,213	-	-	662,213	662,213
Other postemployment benefits	6,398,507	3,862,683	1,211,471	9,049,719	1,336,442
Teacher retirement incentive	1,055,520	-	478,960	576,560	479,760
Gregori traffic litigation	855,600	-	6,976	848,624	47,385
Total	<u>\$ 148,289,112</u>	<u>\$ 12,679,718</u>	<u>\$ 13,370,812</u>	<u>\$ 147,598,018</u>	<u>\$ 12,130,959</u>

The general obligation bonds are paid by the Bond Interest and Redemption Fund with local tax revenue. Payments on the certificates of participation, capital leases, child care revolving loan, and Gregori traffic litigation are made from various District funds. Payments on compensated absences, compensation benefits, and other postemployment benefits are made from the fund for which the related employee worked. Payments on the teacher retirement incentive are made from the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2012	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2013
Elementary School bonds:							
5/2/02	5/1/27	4.8-5.93	\$ 16,998,337	\$ 24,186,617	\$ 1,298,319	\$ 1,790,000	\$ 23,694,936
High School bonds:							
5/2/02	5/1/27	3.79-5.95	64,996,180	92,438,708	5,021,559	6,000,000	91,460,267
Total				<u>\$ 116,625,325</u>	<u>\$ 6,319,878</u>	<u>\$ 7,790,000</u>	<u>\$ 115,155,203</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Debt Service Requirements to Maturity

2002 Modesto City Elementary School District Series A

Payments of the 2002 Modesto City Elementary School District Series A General Obligation Bonds commenced in August 2009.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Final Maturity</u>	<u>Accreted Obligation</u>	<u>Interest to Accrete</u>
2014	\$ 1,855,000	\$ 1,847,243	\$ 7,757
2015	1,920,000	1,813,810	106,190
2016	1,985,000	1,775,179	209,821
2017	2,055,000	1,737,047	317,953
2018	2,130,000	1,699,455	430,545
2019-2023	11,805,000	7,876,613	3,928,387
2024-2027	14,020,000	6,945,589	7,074,411
Total	<u>\$ 35,770,000</u>	<u>\$ 23,694,936</u>	<u>\$ 12,075,064</u>

2002 Modesto High School District Series A

Payments of the 2002 Modesto High School District Series A General Obligation Bonds commenced in August 2005.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Final Maturity</u>	<u>Accreted Obligation</u>	<u>Interest to Accrete</u>
2014	\$ 6,355,000	\$ 6,328,423	\$ 26,577
2015	6,700,000	6,329,440	370,560
2016	7,085,000	6,336,097	748,903
2017	7,465,000	6,310,001	1,154,999
2018	7,835,000	6,251,280	1,583,720
2019-2023	45,820,000	30,495,622	15,324,378
2024-2027	59,440,000	29,409,404	30,030,596
Total	<u>\$ 140,700,000</u>	<u>\$ 91,460,267</u>	<u>\$ 49,239,733</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Certificates of Participation

2001 Certificates

On July 1, 2001, the District entered into a lease-purchase agreement with the Modesto City School District Financing Corporation for the issuance of Certificates of Participation in the amount of \$7,260,000. The Certificates of Participation were sold on behalf of the District to provide funds for the acquisition and construction of certain projects. At June 30, 2013, the principal outstanding was paid in full.

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2013, amounted to \$780,162.

Capital Leases

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

	Lease-Back Agreement	Buses	Total
Balance, July 1, 2012	\$ -	\$ 2,527,942	\$ 2,527,942
Additions	2,440,000	-	2,440,000
Payments	-	862,405	862,405
Balance, June 30, 2013	<u>\$ 2,440,000</u>	<u>\$ 1,665,537</u>	<u>\$ 4,105,537</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 1,487,086
2015	1,495,348
2016	644,566
2017	654,279
Total	4,281,279
Less: Amount Representing Interest	175,742
Present Value of Minimum Lease Payments	<u>\$ 4,105,537</u>

Child Care Revolving Loan

On July 1, 2000, the District was awarded seven Child Care Facilities Revolving Fund loans in the amount of \$130,000, for the purchase, transportation, and installation of facilities for replacement and/or expansion of capacity for provision of child care and development services for a total loan amount of \$910,000. The loan was paid in full during the fiscal year.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Qualified School Construction Bonds Payable

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

On June 1, 2010, Modesto City Schools issued Qualified School Construction Bonds in the amount of \$16,420,000. The proceeds from the Bonds were used to finance improvements to public high schools within the District. A portion of the proceeds were used for the final phase of construction of Joseph A. Gregori High School. The Qualified School Construction Bonds bear an interest rate of 7.00 percent per annum and mature on June 1, 2027. The District is receiving an IRS subsidy rate of 5.57 percent therefore the effective rate to the District is 1.43 percent.

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, 2013, the obligation was \$662,213.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$3,967,562, and contributions made by the District during the year were \$1,211,471. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$287,933 and \$(392,812), respectively, which resulted in an increase to the net OPEB obligation of \$2,651,212. As of June 30, 2013, the net OPEB obligation was \$9,049,719. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Teacher Retirement Incentive Liability

The District offered retirement incentives in the amount of \$30,000 to employees that were at least 55 years of age and had 25 year of CalSTRS credible service.

Future minimum payments on the Teacher Retirement Incentive are as follows:

<u>Fiscal Year</u>	<u>Payments</u>
2014	\$ 479,760
2015	53,600
2016	24,000
2017	14,400
2018	4,800
Total	<u>\$ 576,560</u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ 50,000	\$ 679	\$ 50,679
Stores inventories	371,741	189,019	560,760
Prepaid expenditures	120,980	19,089	140,069
Total Nonspendable	542,721	208,787	751,508
Restricted			
Legally restricted programs	15,533,336	-	15,533,336
Capital projects	-	2,300,017	2,300,017
Childcare programs	-	78,894	78,894
Food service	-	7,268,808	7,268,808
Debt services	-	10,072,899	10,072,899
Total Restricted	15,533,336	19,720,618	35,253,954
Committed			
Deferred maintenance program	-	2,321,671	2,321,671
Total Committed	-	2,321,671	2,321,671
Assigned			
Carryover obligations	8,818,248	-	8,818,248
Debt service reserve	546,824	-	546,824
Equalization textbooks	888,104	-	888,104
AB123 CalSTRS reserve	662,213	-	662,213
Capital projects/maintenance	-	11,115,196	11,115,196
Computer workstation replacement	153,783	-	153,783
County cash FMV adjustment	156,776	-	156,776
Manager retiree benefit fund	341,282	-	341,282
CSEA retiree benefit fund	522,931	-	522,931
Other assignments	32,380	-	32,380
Total Assigned	12,122,541	11,115,196	23,237,737
Unassigned			
Reserve for economic uncertainties	7,251,366	-	7,251,366
Remaining unassigned	39,353,042	-	39,353,042
Total Unassigned	46,604,408	-	46,604,408
Total	\$ 74,803,006	\$ 33,366,272	\$ 108,169,278

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2013, there were no District major funds that exceeded the budgeted amounts.

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Modesto City Schools. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 818 retirees and beneficiaries currently receiving benefits and over 2,600 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (MTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, MTA, CSEA and the unrepresented groups. For fiscal year 2012-2013, the District contributed \$1,211,471 to the plan, all of which was used for current premiums. Plan members receiving benefits contributed through an automatic deduction by California Public Employees' Retirement System (CalPERS) from their retirement payments. Contributions made by retirees range depending on coverage selected.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 3,967,562
Interest on net OPEB obligation	287,933
Adjustment to annual required contribution	(392,812)
Annual OPEB cost (expense)	3,862,683
Contributions made	(1,211,471)
Increase in net OPEB obligation	2,651,212
Net OPEB obligation, beginning of year	6,398,507
Net OPEB obligation, end of year	<u><u>\$ 9,049,719</u></u>

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 3,862,683	\$ 1,211,471	31.36%	\$ 9,049,719
2012	2,762,583	1,054,102	38.16%	6,398,507
2011	2,664,910	652,175	24.47%	4,690,026

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2012	\$ -	\$ 47,636,574	\$ 47,636,574	0.00%	\$ 179,052,249	26.60%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

In the July 1, 2012, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates used were a 5.0 percent increase per year. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2013, was 25 years.

NOTE 13 - RISK MANAGEMENT

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

Property and Liability

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

Employee Medical Benefits

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

Claims Liabilities

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

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2012 to June 30, 2013 (in thousands):

	Dental	Workers' Compensation	Property and Liability	Total
Liability Balance, June 30, 2012	\$ 100,000	\$ 7,010,000	\$ 540,000	\$ 7,650,000
Claims and changes in estimates	2,844,194	3,225,040	963,484	7,032,718
Claims payments	2,829,194	(2,075,040)	(1,243,484)	(489,330)
Liability Balance, June 30, 2013	<u>\$ 115,000</u>	<u>\$ 8,160,000</u>	<u>\$ 260,000</u>	<u>\$ 8,535,000</u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contribution to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$10,849,690, \$10,688,251, and \$10,790,884, respectively, and equaled 100 percent of the required contributions for each year.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contribution to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$4,757,762, \$4,595,596, and \$4,414,339, respectively, and equaled 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) 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 6.0 percent of an employee's gross earnings. An employee is required to contribute 6.0 percent of his or her gross earnings to Social Security.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$6,603,505 (5.176 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted and actual amounts reported in the *General Fund - Budgetary Comparison Schedule*.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013.

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, 2013.

Operating Leases

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

Construction Commitments

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Central Kitchen Reroofing and HVAC	\$ 92,981	September 30, 2013
Beyer Gym Bleacher Replacement	25,807	September 30, 2013
Total Estimated Construction Commitments	<u>\$ 118,788</u>	

Bargaining Units Contributions

The District is committed to providing annual contributions to the Modesto Teachers' Association (MTA), California School Employees Association (CSEA), and MCS Managers, resulting from bargaining unit negotiated agreements. Per the negotiated agreement, the contributions to MTA and CSEA are set fixed amounts. The contribution to MCS Managers is 0.05 percent of gross salaries. The contract agreements establishing these contributions do not indicate any specific use for these funds and can be used for any purpose to the benefit of their membership.

MODESTO CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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MODESTO CITY SCHOOLS

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Revenue limit sources	\$ 159,832,540	\$ 155,630,009	\$ 160,999,982	\$ 5,369,973
Federal sources	19,441,975	24,885,230	22,096,025	(2,789,205)
Other State sources	44,442,866	48,453,186	49,528,550	1,075,364
Other local sources	6,535,031	7,648,495	7,069,799	(578,696)
Total Revenues ¹	230,252,412	236,616,920	239,694,356	3,077,436
EXPENDITURES				
Current				
Certificated salaries	133,280,395	133,561,719	130,357,019	3,204,700
Classified salaries	40,376,717	40,445,030	39,227,327	1,217,703
Employee benefits	35,441,988	33,309,001	32,349,534	959,467
Books and supplies	8,755,397	10,897,112	8,356,677	2,540,435
Services and operating expenditures	24,078,425	32,379,218	21,618,712	10,760,506
Other outgo	4,270,381	5,166,859	4,316,709	850,150
Capital outlay	1,692,400	4,233,740	3,440,976	792,764
Debt service - principal	321,338	321,337	321,337	-
Debt service - interest	76,952	76,953	76,953	-
Total Expenditures ¹	248,293,993	260,390,969	240,065,244	20,325,725
Excess (Deficiency) of Revenues Over Expenditures	(18,041,581)	(23,774,049)	(370,888)	23,403,161
Other Financing Sources (Uses)				
Transfers in	1,862,748	3,806,621	3,439,014	(367,607)
Transfers out	(1,665,261)	(1,652,437)	(1,408,059)	244,378
Net Financing Sources (Uses)	197,487	2,154,184	2,030,955	(123,229)
NET CHANGE IN FUND BALANCES	(17,844,094)	(21,619,865)	1,660,067	23,279,932
Fund Balance - Beginning	73,142,939	73,142,939	73,142,939	-
Fund Balance - Ending	\$ 55,298,845	\$ 51,523,074	\$ 74,803,006	\$ 23,279,932

¹ On behalf payments are not included in revenues and expenditures in this schedule. In addition, 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 OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2012	\$ -	\$ 47,636,574	\$ 47,636,574	0.00%	\$ 179,052,249	26.60%
July 1, 2010	\$ -	\$ 33,309,251	\$ 33,309,251	0.00%	\$ 171,751,264	19.39%

SUPPLEMENTARY INFORMATION

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MODESTO CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education:			
Adult Basic Education and ESL	84.002A	14508	\$ 5,000
Adult Secondary Education	84.002	13978	4,911
English Literacy and Civics Education	84.002A	14109	10,001
No Child Left Behind			
Title I - Part A, Basic	84.010	14329	11,317,729
Title I - School Improvement Grant	84.377	15127	1,208,582
Title II - Improving Teacher Quality	84.367	14341	1,741,110
Title II - Enhancing Education Through Technology			
Formula Grants	84.318	14334	184
Title III - LEP	84.365	14346	853,061
Title III - Immigrant Education Program	84.365	14346	18,200
Title V - Smaller Learning Communities	84.215L	[1]	44,967
Advanced Placement and International Baccalaureate			
Test Fee Program	84.330B	14831	57,225
Special Education Cluster			
IDEA - Basic Local Assistance	84.027	13379	4,885,912
IDEA - Local Assistance - Private School	84.027	10115	18,222
IDEA - Preschool Grants	84.173	13430	109,705
IDEA - Preschool Local Entitlement	84.027A	13682	162,114
IDEA - Preschool Staff Development	84.173A	13431	1,000
IDEA - Mental Health Allocation Plan	84.027A	14468	323,463
IDEA - Quality Assurance and Focused Monitoring	84.027A	13693	64,977
Subtotal Special Education Cluster			5,565,393
IDEA - Early Intervention Programs	84.181	23761	91,745
IDEA - State Improvement Grant, Improving Special Education Systems	84.323	14577	18,698
Vocational Educational Grants			
Technology Secondary II	84.048	14894	438,243
Total U.S. Department of Education			21,375,049

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
CCDF Matching-General Child Development Program	93.596	13609	\$ 768,948
Medi-Cal Billing Option	93.778	10013	740,889
Head Start Programs			
Head Start	93.600	10016	3,249,769
Head Start - Training and Technical Assistance	93.600	10016	5,468
Subtotal Head Start Programs			<u>3,255,237</u>
Total Department of Health and Human Services			<u>4,765,074</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition Cluster:			
National School Lunch	10.555	13391	7,171,644
Especially Needy Breakfast	10.553	13526	2,503,595
Meals Supplements - Snack	10.555	13391	289,389
Seamless Summer	10.559	13004	236,900
Food Distribution	10.555	13391	509,640
Subtotal Child Nutrition Cluster			<u>10,711,168</u>
Total U.S. Department of Agriculture			<u>10,711,168</u>
Total Expenditures of Federal Awards			<u>\$ 36,851,291</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

ORGANIZATION

The Modesto City School District and Modesto High School District were established in 1871. 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
Nancy Cline	President	2013
Cindy Marks	Vice President	2013
Steven Grenbeaux	Member	2015
Stacie Morales	Member	2013
Amy Elliott Neumann	Member	2015
Ruben Villalobos	Member	2013
Sue Zwahlen	Member	2013

ADMINISTRATION

Pamela Able	Superintendent
Julie Chapin	Associate Superintendent, Business Services/Chief Business Official
Virginia Johnson	Associate Superintendent, Educational Services
Craig Rydquist	Associate Superintendent, Human Resources

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2013

	Second Period Report	Annual Report
MODESTO CITY SCHOOLS		
ELEMENTARY		
Kindergarten	1,709.15	1,710.60
First through third	5,109.50	5,107.04
Fourth through sixth	4,592.20	4,593.62
Seventh and eighth	2,689.85	2,682.67
Home and hospital	1.70	2.10
Special education	494.60	508.59
Total Elementary	14,597.00	14,604.62
SECONDARY		
Regular classes	12,424.81	12,334.72
Continuation education	472.61	461.61
Opportunity schools	49.09	49.75
Home and hospital	15.74	17.98
Special education	718.46	722.63
Total Secondary	13,680.71	13,586.69
Grand Total	28,277.71	28,191.31

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual Minutes	1982-83 Actual Minutes	Minutes Requirement	1986-87 Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	36,000	35,000	35,600	178	N/A	Complied
Grades 1 - 3	50,400	49,000	50,400	49,000				
Grade 1					49,900	178	N/A	Complied
Grade 2					49,900	178	N/A	Complied
Grade 3					49,900	178	N/A	Complied
Grades 4 - 6	54,000	52,500	54,000	52,500				
Grade 4					53,350	178	N/A	Complied
Grade 5					53,350	178	N/A	Complied
Grade 6					53,350	178	N/A	Complied
Grades 7 - 8	54,000	52,500	54,000	52,500				
Grade 7					55,908	178	N/A	Complied
Grade 8					55,908	178	N/A	Complied
Grades 9 - 12	64,800	63,000	64,800	63,000				
Grade 9					64,394	178	N/A	Complied
Grade 10					64,394	178	N/A	Complied
Grade 11					64,394	178	N/A	Complied
Grade 12					63,946	178	N/A	Complied

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

	(Budget) 2014 ^{1,4}	2013 ⁴	2012 ⁴	2011 ⁴
GENERAL FUND				
Revenues	\$ 234,803,697	\$ 239,683,880	\$ 244,129,911	\$ 249,055,100
Other sources and transfers in	1,307,405	3,781,678	1,878,502	1,779,273
Total Revenues ³	236,111,102	243,465,558	246,008,413	250,834,373
Expenditures	250,321,093	240,065,244	235,070,080	237,366,794
Other uses and transfers out	2,009,664	1,646,962	1,278,555	1,583,038
Total Expenditures and Other Uses ³	252,330,757	241,712,206	236,348,635	238,949,832
INCREASE/(DECREASE) IN FUND BALANCE	\$ (16,219,655)	\$ 1,753,352	\$ 9,659,778	\$ 11,884,541
ENDING FUND BALANCE	\$ 57,719,138	\$ 73,938,793	\$ 72,185,441	\$ 62,525,663
AVAILABLE RESERVES ²	\$ 25,428,871	\$ 46,604,408	\$ 49,276,304	\$ 34,509,653
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	10.1%	19.3%	20.8%	14.4%
LONG-TERM OBLIGATIONS	Not Available	\$147,598,018	\$148,289,112	\$147,454,216
AVERAGE DAILY ATTENDANCE AT P-2	28,296	28,278	28,207	28,169

The General Fund balance increased by \$11,413,130 over the past two years. The 2013-2014 budget projects a decrease of \$16,219,655. For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have increased by \$143,802 over the past two years.

Average daily attendance has increased by 109 over the past two years. An increase of 18 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 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 with the General Fund.

³ On behalf payments have been excluded from the financial information presented.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve Non-Capital Fund as required by GASB Statement No. 54.

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2013

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 130,263	\$ 655,080	\$ 7,224,782
Receivables	208,457	533,405	2,230,410
Due from other funds	11,945	157	-
Prepaid expenses	-	-	19,089
Stores inventories	-	-	189,019
Total Assets	\$ 350,665	\$ 1,188,642	\$ 9,663,300
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,520	\$ 252,578	\$ 1,165,466
Due to other funds	348,145	157,546	1,020,239
Deferred revenue	-	699,624	-
Total Liabilities	350,665	1,109,748	2,185,705
Fund Balances:			
Nonspendable	-	-	208,787
Restricted	-	78,894	7,268,808
Committed	-	-	-
Assigned	-	-	-
Total Fund Balances	-	78,894	7,477,595
Total Liabilities and Fund Balances	\$ 350,665	\$ 1,188,642	\$ 9,663,300

See accompanying note to supplementary information.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund
\$ 2,822,961	\$ 439	\$ 2,258,503	\$ 98,204	\$ 10,184,418
-	1,575	9,200	-	1,140,312
-	-	-	2,014	139,660
-	-	-	-	-
-	-	-	-	-
<u>\$ 2,822,961</u>	<u>\$ 2,014</u>	<u>\$ 2,267,703</u>	<u>\$ 100,218</u>	<u>\$ 11,464,390</u>
\$ 501,290	\$ -	\$ 7,113	\$ 54,365	\$ 349,194
-	2,014	6,426	-	-
-	-	-	-	-
<u>501,290</u>	<u>2,014</u>	<u>13,539</u>	<u>54,365</u>	<u>349,194</u>
-	-	-	-	-
-	-	2,254,164	45,853	-
2,321,671	-	-	-	-
-	-	-	-	11,115,196
<u>2,321,671</u>	<u>-</u>	<u>2,254,164</u>	<u>45,853</u>	<u>11,115,196</u>
<u>\$ 2,822,961</u>	<u>\$ 2,014</u>	<u>\$ 2,267,703</u>	<u>\$ 100,218</u>	<u>\$ 11,464,390</u>

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MODESTO CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET, Continued JUNE 30, 2013

	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 8,601,203	\$ 1,471,696	\$ 33,447,549
Receivables	-	-	4,123,359
Due from other funds	-	-	153,776
Prepaid expenses	-	-	19,089
Stores inventories	-	-	189,019
Total Assets	\$ 8,601,203	\$ 1,471,696	\$ 37,932,792
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 2,332,526
Due to other funds	-	-	1,534,370
Deferred revenue	-	-	699,624
Total Liabilities	-	-	4,566,520
Fund Balances:			
Nonspendable	-	-	208,787
Restricted	8,601,203	1,471,696	19,720,618
Committed	-	-	2,321,671
Assigned	-	-	11,115,196
Total Fund Balances	8,601,203	1,471,696	33,366,272
Total Liabilities and Fund Balances	\$ 8,601,203	\$ 1,471,696	\$ 37,932,792

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ 19,912	\$ 4,024,185	\$ 10,201,529
Other State sources	531,053	3,922,720	842,741
Other local sources	1,947	159,266	2,428,332
Total Revenues	552,912	8,106,171	13,472,602
EXPENDITURES			
Current			
Instruction	61,389	2,328,039	-
Instruction-related activities:			
Supervision of instruction	-	1,748,526	-
School site administration	114,317	-	-
Pupil services:			
Food services	-	451,304	11,447,994
All other pupil services	-	22,439	-
Administration:			
All other administration	8,198	341,724	521,663
Plant services	29,267	263,993	605,166
Facility acquisition and construction	-	-	1,834,825
Community services	-	2,916,786	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	213,171	8,072,811	14,409,648
Excess (Deficiency) of			
Revenues Over Expenditures	339,741	33,360	(937,046)
Other Financing Sources (Uses)			
Transfers in	-	18,570	-
Other sources	-	-	-
Transfers out	(339,741)	-	(466,513)
Net Financing Sources (Uses)	(339,741)	18,570	(466,513)
NET CHANGE IN FUND BALANCES	-	51,930	(1,403,559)
Fund Balance - Beginning	-	26,964	8,881,154
Fund Balance - Ending	\$ -	\$ 78,894	\$ 7,477,595

See accompanying note to supplementary information.

Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	338,182	-
31,143	4,234	237,831	3,926	2,328,289
31,143	4,234	237,831	342,108	2,328,289
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	1,650	-	-
698,068	-	95	-	2,414
210,663	3,505,334	61,835	628,755	1,872,854
-	-	-	-	-
-	-	110,370	-	3,458,674
-	-	1,606	-	378,356
908,731	3,505,334	175,556	628,755	5,712,298
(877,588)	(3,501,100)	62,275	(286,647)	(3,384,009)
-	135,438	-	403,031	1,568,550
-	-	-	-	2,440,000
-	(403,031)	(6,426)	(552,743)	(3,128,574)
-	(267,593)	(6,426)	(149,712)	879,976
(877,588)	(3,768,693)	55,849	(436,359)	(2,504,033)
3,199,259	3,768,693	2,198,315	482,212	13,619,229
\$ 2,321,671	\$ -	\$ 2,254,164	\$ 45,853	\$ 11,115,196

MODESTO CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, Continued FOR THE YEAR ENDED JUNE 30, 2013

	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES			
Federal sources	\$ -	\$ 874,809	\$ 15,120,435
Other State sources	186,740	-	5,821,436
Other local sources	8,280,052	29,089	13,504,109
Total Revenues	8,466,792	903,898	34,445,980
EXPENDITURES			
Current			
Instruction	-	-	2,389,428
Instruction-related activities:			
Supervision of instruction	-	-	1,748,526
School site administration	-	-	114,317
Pupil services:			
Food services	-	-	11,899,298
All other pupil services	-	-	22,439
Administration:			
All other administration	-	-	873,235
Plant services	-	-	1,599,003
Facility acquisition and construction	-	-	8,114,266
Community services	-	-	2,916,786
Debt service			
Principal	7,790,000	-	11,359,044
Interest and other	-	874,809	1,254,771
Total Expenditures	7,790,000	874,809	42,291,113
Excess (Deficiency) of Revenues Over Expenditures	676,792	29,089	(7,845,133)
Other Financing Sources (Uses)			
Transfers in	-	745,194	2,870,783
Other sources	-	-	2,440,000
Transfers out	(1,060)	-	(4,898,088)
Net Financing Sources (Uses)	(1,060)	745,194	412,695
NET CHANGE IN FUND BALANCES	675,732	774,283	(7,432,438)
Fund Balance - Beginning	7,925,471	697,413	40,798,710
Fund Balance - Ending	\$ 8,601,203	\$ 1,471,696	\$ 33,366,272

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of the fair value of federal food commodities received that are not reflected in the financial statements and the QSCB interest payment subsidy received by the District.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 37,216,460
Reconciling items:		
Food Distribution	10.555	509,640
Qualified School Construction Bonds Interest Subsidy	Not Applicable	(874,809)
Total Schedule of Expenditures of Federal Awards		<u>\$ 36,851,291</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. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

MODESTO CITY SCHOOLS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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.

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

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

INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Modesto City Schools
Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2013, and the related notes to the financial statements, which collectively comprise Modesto City Schools' basic financial statements, and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Modesto City Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Modesto City Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Modesto City Schools' internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Modesto City Schools in a separate letter dated December 12, 2013.

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.

Vannick, Trine, Day & Co, LLP

Fresno, California
December 12, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Modesto City Schools
Modesto, California

Report on Compliance for Each Major Federal Program

We have audited Modesto City Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Modesto City Schools' (the District) major Federal programs for the year ended June 30, 2013. Modesto City Schools' major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Modesto City Schools' major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Modesto City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Modesto City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Modesto City Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Modesto City Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Modesto City Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vannick, Trine, Day & Co, LLP

Fresno, California
December 12, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Modesto City Schools
Modesto, California

Report on State Compliance

We have audited Modesto City Schools' compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of Modesto City Schools' State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of each of the Modesto City Schools' State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Modesto City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Modesto City Schools' compliance with those requirements.

Unmodified Opinion

In our opinion, Modesto City Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes (see below)
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable

We did not perform the steps related to work study nor the independent study ratio testing as the District does not offer either program at their continuation school.

Vannink, Trine, Day & Co, LLP

Fresno, California
December 12, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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MODESTO CITY SCHOOLS

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II - Improving Teacher Quality</u>
<u>10.555, 10.553, 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,105,539</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unmodified</u>
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MODESTO CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

None reported.

MODESTO CITY SCHOOLS

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

None reported.

MODESTO CITY SCHOOLS

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

None reported.

MODESTO CITY SCHOOLS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

There were no audit findings in the prior year's schedule of financial statement findings.