

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

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2011**

# MODESTO CITY SCHOOLS

## TABLE OF CONTENTS

JUNE 30, 2011

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### ***FINANCIAL SECTION***

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds - Statement of Net Assets	20
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets	21
Proprietary Funds - Statement of Cash Flows	22
Fiduciary Funds - Statement of Net Assets	23
Fiduciary Funds - Statement of Changes in Net Assets	24
Notes to Financial Statements	25

### ***REQUIRED SUPPLEMENTARY INFORMATION***

General Fund - Budgetary Comparison Schedule	58
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	59

### ***SUPPLEMENTARY INFORMATION***

Schedule of Expenditures of Federal Awards	61
Local Education Agency Organization Structure	64
Schedule of Average Daily Attendance	65
Schedule of Instructional Time	66
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	67
Schedule of Financial Trends and Analysis	68
Schedule of Charter Schools	69
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	70
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	72
Note to Supplementary Information	74

### ***INDEPENDENT AUDITORS' REPORTS***

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	77
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	79
Report on State Compliance	81

# MODESTO CITY SCHOOLS

## TABLE OF CONTENTS

JUNE 30, 2011

---

### *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

Summary of Auditors' Results	84
Financial Statement Findings	85
Federal Awards Findings and Questioned Costs	86
State Awards Findings and Questioned Costs	87
Summary Schedule of Prior Audit Findings	88

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Modesto City Schools  
Modesto, California

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Modesto City Schools (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; 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 Educational Agencies 2010-11*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Modesto City Schools, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

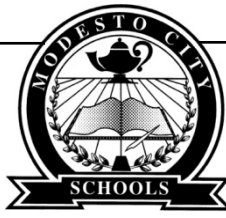
In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison and other postemployment information on pages 58 and 59, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vannoy, Eric, Day & Co., LLP*

Fresno, California  
December 22, 2011



## ADMINISTRATION

**Arturo M. Flores**  
Superintendent

**Chris G. Flesuras, Jr.**  
Deputy Superintendent  
Chief Human Resources Official

**Pamela Able**  
Associate Superintendent  
Educational Services, Pre-K-6

**Randy Fillpot**  
Associate Superintendent  
Educational Services, 7-12

**Craig Rydquist**  
Associate Superintendent  
Educational and Administrative Services

# MODESTO CITY SCHOOLS

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## BOARD OF EDUCATION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. 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.

# MODESTO CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* 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.

These two statements report the District's net assets and changes in them. Net assets are 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 assets are one indicator of whether *its financial health 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 Assets* 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.

# MODESTO CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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**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 Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

### THE DISTRICT AS A TRUSTEE

#### Reporting the District's 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 Assets* and the *Fiduciary Funds - Statement of Changes in Net Assets*. 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 2010-11 year marked the third 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.

Budget reductions to programs included increasing class-size reduction in K-3 from 20:1 staffing ratio to 24.94:1. Staffing levels at the 7-12 grades increased from 28.9:1 to 29.9:1. Additional reductions included shortening the academic year by five school days and increasing the furlough days for staff by the same number.

Other factors that reduced the impact on the fund balance included the exhaustion of Federal stimulus dollars that had been received beginning in June 2009. The use of these one-time dollars allowed for positions that were on a reduction list to be restored. The District also received new Federal stimulus dollars, Education Job Bill Funds, in September 2010.

# MODESTO CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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In 2010-11 the District was successful to transition the final four elementary schools from year-round to a traditional schedule. This final transition has allowed for all sites to begin and end at the same time and to utilize the aligned schedule to coordinate events.

### THE DISTRICT AS A WHOLE

#### Net Assets

The District's net assets were \$329 million for the fiscal year ended June 30, 2011. Of this amount, \$63 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities		
	2011	2010	Change
Current and other assets	\$ 144	\$ 140	\$ 4
Capital assets	359	377	(18)
<b>Total Assets</b>	<b>503</b>	<b>517</b>	<b>(14)</b>
Current liabilities	27	30	(3)
Long-term liabilities	147	149	(2)
<b>Total Liabilities</b>	<b>174</b>	<b>179</b>	<b>(5)</b>
Net assets			
Invested in capital assets, net of related debt	224	241	(17)
Restricted	42	66	(24)
Unrestricted	63	31	32
<b>Total Net Assets</b>	<b>\$ 329</b>	<b>\$ 338</b>	<b>\$ (9)</b>

The \$63 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

#### Changes in Net Assets

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, 2011

Table 2

(Amounts in millions)

	Governmental Activities		
	2011	2010	Change
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 4	\$ 4	\$ -
Operating grants and contributions	76	68	8
Capital grants and contributions	-	-	-
General revenues:			
Federal and State aid not restricted	145	141	4
Property taxes	52	53	(1)
Other general revenues	12	4	8
<b>Total Revenues</b>	<b>289</b>	<b>270</b>	<b>19</b>
<b>Expenses</b>			
Instruction-related	196	198	(2)
Student support services	29	27	2
Administration	12	13	(1)
Maintenance and operations	27	27	-
Other	34	20	14
<b>Total Expenses</b>	<b>298</b>	<b>285</b>	<b>13</b>
<b>Change in Net Assets</b>	<b>\$ (9)</b>	<b>\$ (15)</b>	<b>\$ 6</b>

### Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$298 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$52 million because the cost was paid by those who benefited from the programs (\$4 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$76 million). The District paid for the remaining "public benefit" portion of our governmental activities with \$157 million in Federal and State funds, and with 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 maintenance and other operations. 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, 2011

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction-related	\$ 196	\$ 198	\$ 152	\$ 160
Student support services	29	27	8	11
Administration	12	13	10	11
Maintenance and operations	27	27	25	25
Other	34	20	23	6
<b>Total</b>	<b>\$ 298</b>	<b>\$ 285</b>	<b>\$ 218</b>	<b>\$ 213</b>

### THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$102 million, which is an increase of \$9 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances	
	June 30, 2011	June 30, 2010
General	\$ 63	\$ 52
Non-Major Funds	39	41
<b>Total</b>	<b>\$ 102</b>	<b>\$ 93</b>

### 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 12, 2011. (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 2010-11, Revenue Limit had a negative COLA of -0.39% and a deficit factor of 17.963%. Governor Brown approved the 2010-11 State budget in October 2010 to include the reinstatement of approximately \$252 per Average Daily Attendance of funding. This revenue adjustment is included in the fund balance; however, it should be noted that the \$8.1 million has yet to be funded by the State. The Federal Revenue had prior stimulus dollars that were spent to sustain programs and reduce the impact to fund balance. The State Revenue was affected by a combination of negative COLA and deferrals. Approximately 33% of all State funded dollars, including Revenue Limit, are deferred into the next fiscal year. State Revenue was also affected by the elimination of ELAP funding.

# MODESTO CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2011, the District had \$359 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately \$18 million, or five percent, from last year (Table 5). A portion of this reduction is due to the transfer of assets to the County totaling nearly \$12 million related to roadway improvements at Gregori High School.

Table 5

(Amounts in millions)	Governmental Activities	
	2011	2010
Land and construction in progress	\$ 21	\$ 164
Buildings and improvements	332	208
Equipment	6	5
<b>Total</b>	<b>\$ 359</b>	<b>\$ 377</b>

This year's equipment additions included several vehicles, cafeteria equipment and the Gregori High School library collection. No debt was issued for these additions.

Several capital projects are planned for the 2011-12 year. We anticipate capital additions to be \$5 million for the 2011-12 year. 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 \$149 million last year, a decrease of 1.1 percent. The long-term obligations consisted of:

Table 6

(Amounts in millions)	Governmental Activities	
	2011	2010
General obligation bonds (financed with property taxes)	\$ 118	\$ 118
Certificates of participation	5	8
Qualified School Construction Bonds	16	16
Other postemployment benefits	5	3
Teacher retirement incentive	1	2
Other	2	2
<b>Total</b>	<b>\$ 147</b>	<b>\$ 149</b>

# MODESTO CITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2011**

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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. The District's Elementary outstanding general obligation debt of \$24.6 million is significantly below the \$79.9 million statutorily-imposed limit. The District's High School outstanding general obligation debt of \$93.1 million is significantly below the \$227.5 million statutorily-imposed limit.

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.

### **SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2010-2011 ARE NOTED BELOW:**

The District completed the \$133 million construction of a 2,500 student high school, Joseph A Gregori High School. The site opened with two class levels, freshman and sophomore, and will expand over the next two years until it is a four year comprehensive site.

Also completed was the \$17 million modernization of Thomas Downey High School which included renovations to buildings throughout the site.

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

In considering the District Budget for the 2011-12 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 2011-12. The State budget this year assumed \$4 billion more in State General Fund revenues. If the extra revenue falls short, then automatic spending reductions are triggered;

- If revenues for the year are estimated to be less than \$1 billion below forecast, then no changes are required.
- If revenues fall between \$1 billion and \$2 billion lower, then a series of additional cuts are triggered, including a \$23 million across-the-board cut to child care
- If revenues fall more than \$2 billion, then the state will impose additional cuts to public education of up to \$1.9 billion: a maximum 4% reduction to revenue limits; and a \$248 million cut to school transportation.
- In addition, the revenue limit reductions would be proportional to the amount of the revenue shortfall – meaning, for example, if the shortfall is \$3 billion, then the revenue limit reduction would only be 2% rather than the 4% that would apply if revenues fall \$4 billion or more below estimates.

The State budget also left open the option for a shorter school year depending upon the level of potential triggers. If the automatic reductions are triggered to a certain tier and level, then AB 114 provides authority for LEAs to shorten the school year by up to seven days, in addition to the five days authorized by current law. The shorter school year is still subject to collective bargaining agreement, which would have to be finalized and implemented between February 1<sup>st</sup> and prior to the end of the 2011-12 school year.

# **MODESTO CITY SCHOOLS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

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The State budget also reinstated \$2.1 billion in new deferrals, which added to existing deferrals, brought the total to \$3 billion in inter-year deferrals. The State budget is deferring approximately 45% of State apportionment into the next year. This creates a very difficult budgeting situation for school districts. Along with this, the State budget required that each school district maintain flat funding for 2011-12 fiscal year by maintaining the same level of staffing and programs as the 2010-11 school year.

In addition, the State budget also shifted responsibility to schools to provide mental health services to students with disabilities and re-benches the Proposition 98 guarantee.

In 2011-12 revenue limit COLA was increased by 2.24% per ADA and a deficit factor of 19.754% was included. Also factored into revenue limit was an anticipated enrollment decline of 44 Elementary students and 150 High School students. The District does not anticipate to receive any new Federal stimulus dollars. Title I funding saw a decrease of approximately 10%, or \$1 million, to apportionment. State categorical programs will be funded at the 2.24% COLA, with a flat 2% decrease over 2010-11 funding, and no new programs will be added to the Tier III flexibility listing. However, existing K-3 Class Size Reduction flexibility of funding on a sliding scale will be extended through June 30, 2014. The District is budgeting for the final year of Year Round Incentive funding, but does not expect mandated cost revenue to be funded.

Within expenditures, the most impact can be seen in salaries and benefits. The State Unemployment Insurance employer contribution increased to 1.61%, up from 0.89% in 2010-11, or approximately \$1.5 million. The District reached an agreement with Modesto Teachers Association and Management that extended current furlough and salary concessions through June 30, 2014. It also reached an agreement with Classified School Employees Association that extended current furlough and salary concessions through June 30, 2013.

### **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](mailto:chapin.j@monet.k12.ca.us).

# MODESTO CITY SCHOOLS

## STATEMENT OF NET ASSETS JUNE 30, 2011

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 88,163,731
Receivables	52,903,644
Prepaid expenses	395,428
Deferred charges	1,597,066
Stores inventories	645,627
Nondepreciable capital assets	20,552,093
Capital assets being depreciated	441,602,818
Accumulated depreciation	(102,829,433)
<b>Total Assets</b>	<b>503,030,974</b>
<b>LIABILITIES</b>	
Overdrafts	1,777
Accounts payable	16,336,005
Interest payable	228,060
Deferred revenue	2,914,741
Claims liability	7,478,000
Current portion of long-term obligations	13,000,641
Noncurrent portion of long-term obligations	134,453,575
<b>Total Liabilities</b>	<b>174,412,799</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	224,238,665
Restricted for:	
Debt service	7,798,838
Capital projects	13,588,307
Educational programs	8,074,159
Other activities	12,290,933
Unrestricted	62,627,273
<b>Total Net Assets</b>	<b>\$ 328,618,175</b>

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

**MODESTO CITY SCHOOLS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 162,207,968	\$ 500,758	\$ 32,954,723	\$ 18,803
Instruction-related activities:				
Supervision of instruction	11,893,943	141,026	7,649,160	-
Instructional library, media, and technology	3,665,154	411	1,314,581	-
School site administration	18,660,022	11,409	1,555,522	-
Pupil services:				
Home-to-school transportation	3,996,293	212,172	1,752,820	-
Food services	10,171,953	1,986,992	9,121,907	-
All other pupil services	14,579,881	48,008	7,690,272	-
Administration:				
Data processing	3,509,592	-	8,327	-
All other administration	8,294,289	96,777	1,451,060	-
Plant services	26,523,970	142,114	1,079,493	-
Ancillary services	1,111,151	610	13,086	-
Community services	7,098,177	100,133	6,441,503	-
Enterprise services	2,025,541	-	-	-
Interest on long-term obligations	7,994,727	-	-	-
Other outgo	16,687,553	1,187,689	5,214,434	-
<b>Total Governmental Activities</b>	<b>\$ 298,420,214</b>	<b>\$ 4,428,099</b>	<b>\$ 76,246,888</b>	<b>\$ 18,803</b>
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				
<b>Subtotal, General Revenues</b>				
<b>Change in Net Assets</b>				
Net Assets - Beginning				
Net Assets - Ending				

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

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

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**Governmental  
Activities**

---

\$ (128,733,684)

(4,103,757)

(2,350,162)

(17,093,091)

(2,031,301)

936,946

(6,841,601)

(3,501,265)

(6,746,452)

(25,302,363)

(1,097,455)

(556,541)

(2,025,541)

(7,994,727)

(10,285,430)

(217,726,424)

42,822,390

7,427,652

1,823,827

145,011,962

512,067

2,558,597

7,911,194

208,067,689

(9,658,735)

338,276,910

\$ 328,618,175

**MODESTO CITY SCHOOLS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 31,143,058	\$ 37,900,894	\$ 69,043,952
Receivables	50,182,155	2,686,579	52,868,734
Due from other funds	1,206,151	332,333	1,538,484
Prepaid expenditures	83,656	11,772	95,428
Stores inventories	421,060	224,567	645,627
<b>Total Assets</b>	<b>\$ 83,036,080</b>	<b>\$ 41,156,145</b>	<b>\$ 124,192,225</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ 1,777	\$ 1,777
Accounts payable	14,641,876	1,168,216	15,810,092
Due to other funds	2,081,677	1,206,807	3,288,484
Deferred revenue	2,737,486	177,255	2,914,741
<b>Total Liabilities</b>	<b>19,461,039</b>	<b>2,554,055</b>	<b>22,015,094</b>
<b>Fund Balances:</b>			
Nonspendable	554,716	236,898	791,614
Restricted	7,905,344	23,376,019	31,281,363
Committed	-	4,522,685	4,522,685
Assigned	20,605,328	10,466,488	31,071,816
Unassigned	34,509,653	-	34,509,653
<b>Total Fund Balances</b>	<b>63,575,041</b>	<b>38,602,090</b>	<b>102,177,131</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 83,036,080</b>	<b>\$ 41,156,145</b>	<b>\$ 124,192,225</b>

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 ASSETS  
JUNE 30, 2011**

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 102,177,131</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>		
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	\$ 462,154,911	
Accumulated depreciation is	<u>(102,829,433)</u>	
Net Capital Assets		359,325,478
Expenditures relating to issuance of debt were recognized on modified accrual basis, but are not recognized on the accrual basis.		1,597,066
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.		(228,060)
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.		13,200,776
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:		
Bonds payable	117,709,618	
Certificates of participation	5,370,000	
Compensated absences (vacations)	724,687	
Capital leases payable	160,392	
Child care revolving loan	182,000	
Qualified school construction bonds	16,420,000	
Compensation benefits	662,213	
Other postemployment benefits	4,690,026	
Teacher retirement incentive	<u>1,535,280</u>	
Total Long-Term Obligations		<u>(147,454,216)</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 328,618,175</u></b>

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, 2011**

	<b>General Fund</b>	<b>Non-Major Governmental Funds</b>
<b>REVENUES</b>		
Revenue limit sources	\$ 159,739,775	\$ 145,338
Federal sources	31,247,799	15,263,081
Other State sources	55,752,706	6,960,074
Other local sources	7,770,650	10,368,065
<b>Total Revenues</b>	<u>254,510,930</u>	<u>32,736,558</u>
<b>EXPENDITURES</b>		
Current		
Instruction	146,273,516	3,724,077
Instruction-related activities:		
Supervision of instruction	9,498,258	2,275,288
Instructional library, media and technology	3,337,626	-
School site administration	18,040,598	242,313
Pupil services:		
Home-to-school transportation	4,729,173	-
Food services	3,569	9,964,892
All other pupil services	14,282,248	109,674
Administration:		
Data processing	3,464,577	-
All other administration	6,784,624	763,376
Plant services	25,037,402	1,036,228
Facility acquisition and construction	61,104	4,265,441
Ancillary services	1,098,286	-
Community services	3,584,283	3,182,973
Other outgo	5,063,743	-
Enterprise services	314,505	-
Debt service		
Principal	1,077,897	8,645,633
Interest and other	159,195	1,220,182
<b>Total Expenditures</b>	<u>242,810,604</u>	<u>35,430,077</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>11,700,326</u>	<u>(2,693,519)</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	1,464,768	5,640,296
Transfers out	(1,345,157)	(5,759,907)
<b>Net Financing Sources (Uses)</b>	<u>119,611</u>	<u>(119,611)</u>
<b>NET CHANGE IN FUND BALANCES</b>	11,819,937	(2,813,130)
<b>Fund Balance - Beginning as Restated</b>	51,755,104	41,415,220
<b>Fund Balance - Ending</b>	<u>\$ 63,575,041</u>	<u>\$ 38,602,090</u>

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

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<b>Total Governmental Funds</b>	
\$	159,885,113
	46,510,880
	62,712,780
	18,138,715
	<u>287,247,488</u>
	149,997,593
	11,773,546
	3,337,626
	18,282,911
	4,729,173
	9,968,461
	14,391,922
	3,464,577
	7,548,000
	26,073,630
	4,326,545
	1,098,286
	6,767,256
	5,063,743
	314,505
	9,723,530
	1,379,377
	<u>278,240,681</u>
	<u>9,006,807</u>
	7,105,064
	<u>(7,105,064)</u>
	-
	<u>9,006,807</u>
	93,170,324
\$	<u><u>102,177,131</u></u>

**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, 2011**

---

**Total Net Change in Fund Balances - Governmental Funds** **\$ 9,006,807**  
**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 Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (10,247,064)	
Capital outlays	<u>3,518,886</u>	
Net Expense Adjustment		(6,728,178)

Reduction of capital assets due to contributions to other entities are reported in the government-wide Statement of Net Assets, but are not recorded in the governmental funds. (11,690,937)

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 \$460,560. Vacation earned was more than the amounts paid by \$199,279. 261,281

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: (2,012,735)

Payment of costs for the issuance of certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a prepaid expense and amortized on the Statement of Net Assets over the live of the bonds. The amount of issuance costs amortized during the year was: (140,629)

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, 2011

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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 Assets and does not affect the Statement of Activities:

General obligation bonds	\$ 7,105,000
Certificates of participation	2,335,000
Capital lease obligations	192,530
Child care revolving loan	91,000

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.

(6,474,441)

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.

(1,603,433)

**Change in Net Assets of Governmental Activities**

**\$ (9,658,735)**

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

**MODESTO CITY SCHOOLS**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

---

	<u>Self Insurance Internal Service Fund</u>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 19,119,779
Receivables	34,910
Due from other funds	1,750,000
Prepaid expenses	300,000
<b>Total Current Assets</b>	<u>21,204,689</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	525,913
Claim liabilities	7,478,000
<b>Total Current Liabilities</b>	<u>8,003,913</u>
<b>NET ASSETS</b>	
Restricted	13,200,776
<b>Total Net Assets</b>	<u>\$ 13,200,776</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 ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

---

	<b>Self Insurance Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ 5,042,968
<b>Total Operating Revenues</b>	<u>5,042,968</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	325,164
Supplies and materials	185,563
Facility rental	146,662
Other operating cost	6,180,477
<b>Total Operating Expenses</b>	<u>6,837,866</u>
<b>Operating Loss</b>	<u>(1,794,898)</u>
<b>NONOPERATING REVENUES</b>	
Interest income	191,465
<b>Total Nonoperating Revenues</b>	<u>191,465</u>
<b>Change in Net Assets</b>	(1,603,433)
<b>Total Net Assets - Beginning</b>	14,804,209
<b>Total Net Assets - Ending</b>	<u>\$ 13,200,776</u>

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, 2011**

---

	<b>Self Insurance Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from premiums	\$ 5,084,461
Cash payments to employees for services	(325,164)
Other operating cash payments	(6,220,092)
Net Cash Used for Operating Activities	<u>(1,460,795)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	191,465
Net Cash Provided by Investing Activities	<u>191,465</u>
Net Decrease in Cash and Cash Equivalents	(1,269,330)
Cash and Cash Equivalents - Beginning	20,389,109
Cash and Cash Equivalents - Ending	<u>\$ 19,119,779</u>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating loss	\$ (1,794,898)
Changes in assets and liabilities:	
Receivables	6,163
Due from other funds	35,330
Accrued liabilities	292,644
Due to other funds	(34)
<b>NET CASH USED FOR OPERATING ACTIVITIES</b>	<u>\$ (1,460,795)</u>

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

**MODESTO CITY SCHOOLS**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

	<u>Scholarship Trusts</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Deposits and investments	\$ 1,445,305	\$ 1,338,693
<b>Total Assets</b>	<u>1,445,305</u>	<u>\$ 1,338,693</u>
<b>LIABILITIES</b>		
Due to student groups		
Elementary Schools Combined Account	-	\$ 311,198
Beyer High School	-	139,236
Davis High School	-	110,545
Downey High School	-	280,213
Enochs High School	-	196,210
Gregori High School	-	39,969
Johansen High School	-	169,525
Modesto High School	-	91,797
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 1,338,693</u>
<b>NET ASSETS-RESTRICTED</b>		
Elementary Schools Combined Account	129,078	
Beyer High School	18,507	
Davis High School	182,748	
Downey High School	45,432	
Enochs High School	6,953	
Gregori High School	1,000	
Johansen High School	29,774	
Modesto High School	1,031,813	
<b>Total Net Assets</b>	<u>\$ 1,445,305</u>	

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

# MODESTO CITY SCHOOLS

## FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2011

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	<u>Scholarship Trusts</u>
<b>ADDITIONS</b>	
Private donations and scholarship earnings	
Elementary Schools Combined Account	\$ 21,539
Beyer High School	7,650
Davis High School	4,046
Downey High School	2,095
Enochs High School	5,253
Gregori High School	1,000
Johansen High School	22,912
Modesto High School	44,420
<b>Total Additions</b>	<u>108,915</u>
<b>DEDUCTIONS</b>	
Scholarships awarded and other expenditures	
Elementary Schools Combined Account	26,612
Beyer High School	4,350
Davis High School	3,179
Downey High School	6,380
Enochs High School	3,977
Gregori High School	-
Johansen High School	31,629
Modesto High School	61,952
<b>Total Deductions</b>	<u>138,079</u>
<b>Change in Net Assets</b>	(29,164)
<b>Net Assets - Beginning</b>	1,474,469
<b>Net Assets - Ending</b>	<u>\$ 1,445,305</u>

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

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Modesto City School District and Modesto High School District were established in 1871, under the laws of the State of California. The Districts operate 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 (22) elementary schools and four junior high schools. The Modesto High School District operates seven (7) high schools, one charter school, and an alternative education school.

A reporting entity is comprised of the primary government and component units that are included to ensure the financial statements are not misleading. 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.

#### **Component Unit – Modesto Virtual Academy**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to administer the Charter School operations of the Modesto Virtual Academy.

The District has approved a Charter for Modesto Virtual Academy Charter School pursuant to Education Code Section 47605. The Modesto Virtual Academy Charter School is operated by the District, and its financial activities are presented in the Charter School special revenue Fund. The Modesto Virtual Academy Charter School is operated by the District's board and is considered a component unit 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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

---

**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 and report all financial resources not accounted for and reported in another 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 \$1,049,378, \$1,049,378, and \$12,020, respectively.

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

**Charter Schools Fund** This fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General 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, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

**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).

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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**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, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

**Capital Project Funds** The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of 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), or the 2004 State School Facilities Fund (Proposition 55) 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 Fund for Capital Outlay Projects** The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

**Debt Service Funds** The Debt Service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

**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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds 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 any activity for which services are 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 fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: scholarship trust funds and agency funds.

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

### **Basis of Accounting - Measurement Focus**

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

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

Net assets should be reported as restricted when constraints placed on net asset 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 assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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**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 assets. The statement of changes in fund net assets 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.

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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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**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, 2011, 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.

### **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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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 assets. 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, 5 to 50 years; equipment, 4 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 Assets, 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 assets as long-term obligations.

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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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, 2011, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Minimum Fund Balance Policy

In fiscal year 2010-11, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-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 Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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 assets are available. The government-wide financial statements reports \$41,752,237 of restricted net assets.

### 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.

### 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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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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 March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

### **New Accounting Pronouncements**

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 69,042,175
Internal service fund	19,119,779
Fiduciary funds	<u>2,783,998</u>
Total Deposits and Investments	<u><u>\$ 90,945,952</u></u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 2,783,998
Cash in revolving	50,559
Cash with fiscal agent	7,133,701
Investments	<u>80,977,694</u>
Total Deposits and Investments	<u><u>\$ 90,945,952</u></u>

#### Policies and Practices

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

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

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

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

### 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.

### 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	\$ 80,769,672	\$ -	\$ 80,769,672	\$ -	\$ -
State Investment Pool	208,022	208,022	-	-	-
Total	<u>\$ 80,977,694</u>	<u>\$ 208,022</u>	<u>\$ 80,769,672</u>	<u>\$ -</u>	<u>\$ -</u>

**MODESTO CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**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, 2011.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
County Pool	\$ 80,769,672	N/A	\$ -	\$ -	\$ 80,769,672
State Investment Pool	208,022	N/A	-	-	208,022
Total	<u>\$ 80,977,694</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,977,694</u>

N/A - Not applicable

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer that represent five percent or more of the total investments.

**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, 2011, \$1,722,080 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, 2011

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### NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total	Self Insurance Fund
Federal Government				
Categorical aid	\$ 5,514,292	\$ 1,507,329	\$ 7,021,621	\$ -
State Government				
Apportionment	31,328,806	261,396	31,590,202	-
Categorical aid	6,420,870	115,298	6,536,168	-
Lottery	1,975,339	-	1,975,339	-
Other state	1,899,653	785,166	2,684,819	-
Local sources	3,043,195	17,390	3,060,585	34,910
Total	<u>\$ 50,182,155</u>	<u>\$ 2,686,579</u>	<u>\$ 52,868,734</u>	<u>\$ 34,910</u>

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 12,627,754	\$ 6,509,769	\$ -	\$ 19,137,523
Construction in progress	151,464,931	2,055,404	152,105,765 <sup>1</sup>	1,414,570
Total Capital Assets Not Being Depreciated	<u>164,092,685</u>	<u>8,565,173</u>	<u>152,105,765</u>	<u>20,552,093</u>
Capital Assets being depreciated				
Land improvements	15,090,397	14,757,335	-	29,847,732
Buildings and improvements	279,275,682	119,184,418	478,880	397,981,220
Furniture and equipment	12,299,005	1,493,915	19,054	13,773,866
Total Capital Assets Being Depreciated	<u>306,665,084</u>	<u>135,435,668</u>	<u>497,934</u>	<u>441,602,818</u>
Less Accumulated Depreciation				
Land improvements	2,649,907	1,240,285	-	3,890,192
Buildings and improvements	82,941,466	8,201,979	413,659	90,729,786
Furniture and equipment	7,421,803	804,800	17,148	8,209,455
Total Accumulated Depreciation	<u>93,013,176</u>	<u>10,247,064</u>	<u>430,807</u>	<u>102,829,433</u>
Governmental Activities Capital Assets, Net	<u>\$ 377,744,593</u>	<u>\$ 133,753,777</u>	<u>\$ 152,172,892</u>	<u>\$ 359,325,478</u>

<sup>1</sup> \$11,623,810 of deductions were related to roadway and other County improvements associated with the construction Gregori High School which were transferred to the County of Stanislaus.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 8,558,813
Instructional library, media, and technology	255,146
School site administration	121,060
Home-to-school transportation	167,432
Food services	421,841
Community Services	275,087
Enterprise	1,790
All other general administration	281,037
Plant services	164,858
Total Depreciation Expenses Governmental Activities	<u>\$ 10,247,064</u>

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### 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, 2011, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds		
General	\$ 1,206,151	\$ 2,081,677
Total Major Governmental Funds	<u>1,206,151</u>	<u>2,081,677</u>
Non-Major Governmental Funds		
Charter	331,677	26,678
Adult Education	-	406,077
Child Development	-	53
Cafeteria	-	769,819
Deferred Maintenance	-	3,524
Building	-	656
County School Facilities	656	-
Total Non-Major Governmental Funds	<u>332,333</u>	<u>1,206,807</u>
Self Insurance	1,750,000	-
Total All Governmental Funds	<u>\$ 3,288,484</u>	<u>\$ 3,288,484</u>

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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### Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

The General Fund transferred to the Charter School Fund to cover an encroachment by the Modesto Virtual Academy.	\$ 302,543
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 Child Development Fund to post and correct negative interest for child development programs.	1,647
The General Fund transferred to the Special Reserve Capital Outlay Fund for the auditorium replacement.	34,438
The General Fund transferred to the Special Reserve Capital Outlay Fund for transportation equipment replacement.	57,804
The General Fund transferred to the Special Reserve Capital Outlay Fund the mileage allocation for future bus replacement.	10,155
The General Fund transferred to Special Reserve Capital Outlay Fund for the bus replacement purchase.	920,000
The Adult Education Fund transferred to the General Fund for the Tier III categorical flexibility sweep.	400,000
The Cafeteria transferred to the General Fund for the Nutritional Service Center allocation for maintenance.	278,188
The Deferred Maintenance Fund transferred to the County School Facilities Fund for the Downey School modernization.	84,222
The Building Fund transferred to the County School Facilities Fund for the Gregori High School project.	2,000,000
The County School Facilities Fund transferred to the General Fund for the administrative fee for developer fees collected.	6,580
The County School Facilities Fund transferred to the Special Reserve Capital Outlay Fund for the Gregori High School project.	2,210,917
The Special Reserve Capital Outlay Fund transferred to the General Fund for the bus replacement purchase.	780,000
Total	<u>\$ 7,105,064</u>

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, 2011**

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**NOTE 6 - PREPAID EXPENDITURES**

Prepaid expenditures at June 30, 2011, consisted of the following:

	<u>Governmental Activities</u>
General vendors - General Fund	\$ 83,656
General vendors - Non-Major Governmental Funds	11,772
General vendors - Internal Service Fund	300,000
Total entity-wide	<u>\$ 395,428</u>

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2011, consisted of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>	<u>Self Insurance Fund</u>
Vendor payables	\$ 1,884,741	\$ 621,805	\$ 2,506,546	\$ 525,913
Salaries and benefits	9,064,456	273,725	9,338,181	-
Revenue limit	844,853	-	844,853	-
State apportionment	2,847,826	272,686	3,120,512	-
Total	<u>\$ 14,641,876</u>	<u>\$ 1,168,216</u>	<u>\$ 15,810,092</u>	<u>\$ 525,913</u>

**NOTE 8 - DEFERRED REVENUE**

Deferred revenue at June 30, 2011, consists of the following:

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Federal financial assistance	\$ 2,561,204	\$ -	\$ 2,561,204
State categorical aid	176,282	52,640	228,922
Other local	-	124,615	124,615
Total	<u>\$ 2,737,486</u>	<u>\$ 177,255</u>	<u>\$ 2,914,741</u>

**MODESTO CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**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, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds:					
Elementary bonds	\$ 24,944,467	\$ 1,326,949	\$ 1,670,000	\$ 24,601,416	\$ 1,730,000
High School District bonds	93,503,077	5,040,125	5,435,000	93,108,202	5,710,000
Certificates of participation:					
1998 Issuance	3,770,000	-	1,845,000	1,925,000	1,925,000
2001 Issuance	3,935,000	-	490,000	3,445,000	515,000
Compensated absences	525,408	199,279	-	724,687	724,687
Capital leases	352,922	-	192,530	160,392	160,392
Child care revolving loan	273,000	-	91,000	182,000	91,000
2010 Qualified School					
Construction bonds	16,420,000	-	-	16,420,000	-
Compensation benefits	662,213	-	-	662,213	662,213
Other postemployment benefits	2,677,291	2,838,186	825,451	4,690,026	1,002,589
Teacher retirement incentive	1,995,840	15,200	475,760	1,535,280	479,760
Total	<u>\$ 149,059,218</u>	<u>\$ 9,419,739</u>	<u>\$ 11,024,741</u>	<u>\$ 147,454,216</u>	<u>\$ 13,000,641</u>

The general obligation bonds will be paid by the Bond Interest and Redemption Fund with local tax revenue. Payments on the certificates of participation, capital leases, and child care revolving loan 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			Bonds
				Outstanding July 1, 2010	Interest Accreted	Redeemed	Outstanding June 30, 2011
Elementary School bonds:							
5/2/02	5/1/27	4.8-5.93	\$ 16,998,337	\$ 24,944,467	\$ 1,326,949	\$ 1,670,000	\$ 24,601,416
High School bonds:							
5/2/02	5/1/27	3.79-5.95	64,996,180	93,503,077	5,040,125	5,435,000	93,108,202
Total				<u>\$ 118,447,544</u>	<u>\$ 6,367,074</u>	<u>\$ 7,105,000</u>	<u>\$ 117,709,618</u>

**MODESTO CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**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>
2012	\$ 1,730,000	\$ 1,723,037	\$ 6,963
2013	1,790,000	1,694,931	95,069
2014	1,855,000	1,666,996	188,004
2015	1,920,000	1,632,684	287,316
2016	1,985,000	1,594,491	390,509
2017-2021	11,025,000	7,408,312	3,616,688
2022-2026	13,085,000	6,492,089	6,592,911
2027	5,900,000	2,388,876	3,511,124
Total	<u>\$ 39,290,000</u>	<u>\$ 24,601,416</u>	<u>\$ 14,688,584</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>
2012	\$ 5,710,000	\$ 5,687,022	\$ 22,978
2013	6,000,000	5,681,331	318,669
2014	6,355,000	5,710,920	644,080
2015	6,700,000	5,697,386	1,002,614
2016	7,085,000	5,691,173	1,393,827
2017-2021	41,215,000	27,648,313	13,566,687
2022-2026	53,935,000	26,704,424	27,230,576
2027	25,410,000	10,287,633	15,122,367
Total	<u>\$ 152,410,000</u>	<u>\$ 93,108,202</u>	<u>\$ 59,301,798</u>

**MODESTO CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

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**Certificates of Participation**

1998 Certificates

On November 1, 1998, 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 \$19,705,000. The Certificates of Participation were sold on behalf of the District to provide funds for the current refunding of the outstanding variable rate demand Certificates of Participation (the "1991 Certificates") and the acquisition and construction of certain projects. The Certificates of Participation bear interest rates between 3.50 percent and 4.50 percent and mature annually through September 1, 2011. At June 30, 2011, the principal balance outstanding was \$1,925,000.

The certificates mature through 2012 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	<u>\$ 1,925,000</u>	<u>\$ 43,313</u>	<u>\$ 1,968,313</u>

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. The Certificates of Participation bear interest rates between 2.80 percent and 4.90 percent and mature annually through September 1, 2016. At June 30, 2011, the principal outstanding was \$3,445,000.

The certificates mature through 2017 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 515,000	\$ 149,599	\$ 664,599
2013	535,000	126,886	661,886
2014	560,000	102,516	662,516
2015	585,000	75,583	660,583
2016	610,000	46,305	656,305
2017	640,000	15,680	655,680
Total	<u>\$ 3,445,000</u>	<u>\$ 516,569</u>	<u>\$ 3,961,569</u>

**Compensated Absences**

The long-term portion of compensated absences for the District at June 30, 2011, amounted to \$724,687.

**MODESTO CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

---

**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:

	Security System	Galas Reno Property	Total
Balance, July 1, 2010	\$ 315,361	\$ 37,561	\$ 352,922
Payments	154,969	37,561	192,530
Balance, June 30, 2011	<u>\$ 160,392</u>	<u>\$ -</u>	<u>\$ 160,392</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
<u>2012</u>	<u>\$ 164,579</u>
Total	164,579
Less: Amount Representing Interest	4,187
Present Value of Minimum Lease Payments	<u>\$ 160,392</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 is repayable in equal payments of \$91,000 over a ten-year period beginning on the date of the first repayment. The loan does not bear interest.

Future minimum payments on the Child Care Facilities Revolving Fund are as follows:

Fiscal Year	Payments
<u>2012</u>	<u>\$ 91,000</u>
2013	91,000
Total	<u>\$ 182,000</u>

**Qualified School Construction Bonds Payable**

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

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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On June 1, 2010, Modesto City Schools issued Qualified School Construction Bonds in the amount of \$16,420,000. The proceeds from the Bonds will be used to finance improvements to public high schools within the District. A portion of the proceeds will be 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.

### **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, 2011, the total remaining estimated obligation is \$662,213, which is expected to be paid within the next 12 months.

### **Other Postemployment Benefits (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2011, was \$2,717,708, and contributions made by the District during the year were \$652,175. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$120,478 and \$(173,276), respectively, which resulted in an increase to the net OPEB obligation of \$2,012,735. As of June 30, 2011, the net OPEB obligation was \$4,690,026. 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. Currently, the District has 82 retired employees that are participating in the program and are receiving monthly payments.

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

<u>Fiscal Year</u>	<u>Payments</u>
2012	\$ 479,760
2013	479,760
2014	479,760
2015	52,800
2016	24,000
2017-2018	19,200
Total	<u>\$ 1,535,280</u>

**MODESTO CITY SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>			
Revolving cash	\$ 50,000	\$ 559	\$ 50,559
Stores inventories	421,060	224,567	645,627
Prepaid expenditures	83,656	11,772	95,428
Total Nonspendable	<u>554,716</u>	<u>236,898</u>	<u>791,614</u>
<b>Restricted</b>			
Legally restricted programs	7,905,344	7,700,165	15,605,509
Capital projects	-	7,877,016	7,877,016
Debt services	-	7,798,838	7,798,838
Total Restricted	<u>7,905,344</u>	<u>23,376,019</u>	<u>31,281,363</u>
<b>Committed</b>			
Adult education program	-	167,744	167,744
Deferred maintenance program	-	4,354,941	4,354,941
Total Committed	<u>-</u>	<u>4,522,685</u>	<u>4,522,685</u>
<b>Assigned</b>			
State economic uncertainties	8,103,990	-	8,103,990
Carryover obligations	7,770,873	-	7,770,873
Debt service reserve	832,643	-	832,643
Equalization textbooks	888,104	-	888,104
AB123 STRS reserve	662,213	-	662,213
Capital projects/maintenance	2,178,629	10,466,488	12,645,117
Other assignments	168,876	-	168,876
Total Assigned	<u>20,605,328</u>	<u>10,466,488</u>	<u>31,071,816</u>
<b>Unassigned</b>			
Reserve for economic uncertainties	7,168,495	-	7,168,495
Remaining unassigned	27,341,158	-	27,341,158
Total Unassigned	<u>34,509,653</u>	<u>-</u>	<u>34,509,653</u>
Total	<u>\$ 63,575,041</u>	<u>\$ 38,602,090</u>	<u>\$ 102,177,131</u>

**NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)**

At June 30, 2011, there were no District major funds that exceeded the budgeted amounts.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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 764 retirees and beneficiaries currently receiving benefits and 1,529 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 2011-12, the District contributed \$652,175 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	\$ 2,717,708
Interest on net OPEB obligation	120,478
Adjustment to annual required contribution	(173,276)
Annual OPEB cost (expense)	<u>2,664,910</u>
Contributions made	<u>(652,175)</u>
Increase in net OPEB obligation	2,012,735
Net OPEB obligation, beginning of year	2,677,291
Net OPEB obligation, end of year	<u><u>\$ 4,690,026</u></u>

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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
2011	\$ 2,664,910	\$ 652,175	24.47%	\$ 4,690,026
2010	Not Available	315,936	Not Available	2,677,291
2009	Not Available	400,896	Not Available	2,993,227

### Funded Status and Funding Progress

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.

In the July 1, 2010, 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, 2011, was 26 years.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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.

#### 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, 2009 to June 30, 2011 (in thousands):

	Workers' Compensation	Property and Liability
Liability Balance, June 30, 2010	\$ 7,392,000	\$ 150,000
Claims and changes in estimates	1,609,961	931,690
Claims payments	(1,813,961)	(791,690)
Liability Balance, June 30, 2011	<u>\$ 7,188,000</u>	<u>\$ 290,000</u>
Assets available to pay claims at June 30, 2011	<u>\$ 13,200,776</u>	

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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 the 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, 7919 Folsom Blvd., Sacramento, California 95826.

##### 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 2010-11 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, 2011, 2010, and 2009, were \$10,790,884, \$15,161,603, and \$12,334,741, respectively, and equaled 100 percent of the required contributions for each year.

#### 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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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 2010-11 was 10.707 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, 2011, 2010, and 2009, were \$4,414,339, \$4,246,989, and \$4,242,896, 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 \$5,443,810 (4.267 percent of annual payroll). 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 or actual amounts reported in the *General Fund - Budgetary Comparison Schedule*.

## 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, 2011.

### 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 most litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011. The District is involved in one case of litigation in which the District is the defendant. In the opinion of legal counsel it is too early in this litigation to make an evaluation of the outcome.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### 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, 2011, the District had no commitments with respect to unfinished capital projects.

### 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.

### 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.

# MODESTO CITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

### NOTE 18 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011, to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance for Fund 17, Special Reserve Non-Capital Fund, as presented in the Non-Major Governmental Fund opinion unit, is reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

#### General Fund

Fund Balance - Beginning	\$ 50,705,726
Change in accounting principles to conform to GASB Statement No. 54	1,049,378
Fund Balance - Beginning as Restated	<u>\$ 51,755,104</u>

#### Non-Major Governmental Funds

Fund Balance - Beginning	\$ 42,464,598
Change in accounting principles to conform to GASB Statement No. 54	(1,049,378)
Fund Balance - Beginning as Restated	<u>\$ 41,415,220</u>

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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, 2011**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Revenue limit sources	\$ 152,067,535	\$ 164,279,207	\$ 159,739,775	\$ (4,539,432)
Federal sources	21,690,032	36,928,555	31,247,799	(5,680,756)
Other State sources	44,948,810	49,043,961	50,308,896	1,264,935
Other local sources	6,829,884	7,838,676	7,770,650	(68,026)
<b>Total Revenues</b> <sup>1</sup>	<b>225,536,261</b>	<b>258,090,399</b>	<b>249,067,120</b>	<b>(9,023,279)</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	131,520,458	133,572,205	129,997,929	3,574,276
Classified salaries	37,753,528	38,815,183	38,164,940	650,243
Employee benefits	32,490,856	33,132,072	32,453,343	678,729
Books and supplies	7,854,863	10,455,462	9,342,091	1,113,371
Services and operating expenditures	22,402,594	28,943,849	20,853,789	8,090,060
Other outgo	4,842,923	4,522,619	4,300,368	222,251
Capital outlay	521,472	1,373,581	1,017,239	356,342
Debt service - principal	114,756	1,366,555	1,077,900	288,655
Debt service - interest	1,085,763	159,195	159,195	-
<b>Total Expenditures</b> <sup>1</sup>	<b>238,587,213</b>	<b>252,340,721</b>	<b>237,366,794</b>	<b>14,973,927</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(13,050,952)</b>	<b>5,749,678</b>	<b>11,700,326</b>	<b>5,950,648</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	969,090	1,775,809	1,464,768	(311,041)
Transfers out	(1,258,370)	(1,591,529)	(1,345,157)	246,372
<b>Net Financing Sources (Uses)</b>	<b>(289,280)</b>	<b>184,280</b>	<b>119,611</b>	<b>(64,669)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(13,340,232)</b>	<b>5,933,958</b>	<b>11,819,937</b>	<b>5,885,979</b>
<b>Fund Balance - Beginning as Restated</b>	<b>51,755,104</b>	<b>51,755,104</b>	<b>51,755,104</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 38,414,872</b>	<b>\$ 57,689,062</b>	<b>\$ 63,575,041</b>	<b>\$ 5,885,979</b>

<sup>1</sup> On behalf payments are not included in the actual 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, 2011**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ( b - a  / c)</b>
July 1, 2010	\$ -	\$ 33,309,251	\$ 33,309,251	0.00%	\$ 171,751,264	19.39%

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***SUPPLEMENTARY INFORMATION***

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**MODESTO CITY SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education:			
Adult Basic Education & ESL	84.002A	14508	\$ 50,030
Adult Secondary Education	84.002	13978	6,881
English Literacy & Civics Education	84.002A	14109	2,135
No Child Left Behind			
Title I - Part A, Basic	84.010	14329	11,928,563
School Improvement Grant Cluster			
Title I - School Improvement Grant	84.377	15127	124,021
ARRA: Title I - School Improvement Grant	84.388	15020	85,449
Subtotal School Improvement Grant Cluster			<u>209,470</u>
Title II - Improving Teacher Quality	84.367	14341	2,086,438
Title II - Administrator Training	84.367	14344	(4,329)
Educational Technology State Grants Cluster			
Title II - Enhancing Education Through			
Technology Formula Grants	84.318	14334	92,667
ARRA: Title II - Enhancing Education Through			
Technology Formula Grants	84.386	15019	197,395
ARRA: Title II - Enhancing Education Through			
Technology Competative Grants	84.386	15126	498,642
Subtotal Educational Technology State Grants Cluster			<u>788,704</u>
Title III - LEP	84.365	14346	905,705
Title IV - Safe & Drug Free Schools	84.186	14347	(240)
Title V - Smaller Learning Communities	84.215L	[1]	237,881
ARRA - State Fiscal Stabilization Fund	84.394	25008	9,229,177
Education Jobs Fund	84.410	25152	2,737,701
Special Education Cluster			
IDEA - Basic Local Assistance	84.027	13379	5,702,139
ARRA: IDEA - Basic Local Assistance	84.391	15003	1,196,424
IDEA - Local Assistance - Private School	84.027	10115	26,428
ARRA: IDEA - Local Assistance - Private School	84.391	10123	2,019
IDEA - Preschool Grants	84.173	13430	127,653
ARRA: IDEA - Preschool Grants	84.392	15000	31,470
IDEA - Preschool Local Entitlement	84.027A	13682	191,077
ARRA: IDEA - Preschool Local Entitlement	84.391	15002	24,984
IDEA - Preschool Staff Development	84.173A	13431	2,274
Subtotal Special Education Cluster			<u>7,304,468</u>

[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, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education:			
IDEA - Early Intervention Programs	84.181	23761	\$ 91,745
Vocational Educational Grants			
Technology Secondary II	84.048	14894	518,698
Adult Section 132	84.048	14893	18,138
Total U.S. Department of Education			<u>36,111,165</u>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health			
Care Services:			
CCDF Cluster			
CCDF Matching-General Child Development Program	93.596	13609	1,135,399
ARRA: Child Development - Quality Improvement Activities	93.713	15010	51,375
Subtotal CCDF Cluster			<u>1,186,774</u>
Medicaid Programs			
Medi-Cal Administrative Assistance	93.778	10060	358,236
Medi-Cal Billing	93.778	10013	640,569
Subtotal Medicaid programs			<u>998,805</u>
Head Start Cluster			
Head Start	93.600	10016	3,401,208
Head Start - Program Improvement	93.600	10016	252,106
Head State - Training and Technical Assistance	93.600	10016	9,700
ARRA: Head Start - COLA	93.708	[1]	46,195
ARRA Head Start - Expansion	93.708	[1]	115,874
Subtotal Head Start Cluster			<u>3,825,083</u>
Total Department of Health and Human Services			<u>6,010,662</u>

[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, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education:			
Child Nutrition - Equipment Assistance Grants	10.579	14906	\$ 144,678
Child Nutrition Cluster:			
National School Lunch	10.555	13391	6,477,339
Especially Needy Breakfast	10.553	13526	2,153,589
Basic School Breakfast Program	10.553	13525	19,139
Meals Supplements - Snack	10.555	13391	210,586
Seamless Summer	10.559	13004	327,791
Food Distribution	10.555	13391	637,086
Subtotal Child Nutrition Cluster			<u>9,825,530</u>
Total U.S. Department of Agriculture			<u>9,970,208</u>
Total Expenditures of Federal Awards			<u>\$ 52,092,035</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, 2011

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### 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, one charter school, and an alternative education school. There were no boundary changes during the year.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Sue Zwahlen	President	2013
Ruben A. Villalobos	Vice President	2013
Nancy Cline	Member	2013
Steven Grenbeaux	Member	2011
Gary A. Lopez	Member	2011
Cindy Marks	Member	2013
Kimberly Gerber Spina	Member	2011

### ADMINISTRATION

Arturo M. Flores	Superintendent
Chris G. Flesuras, Jr.	Deputy Superintendent, Human Resources
Pamela Able	Associated Superintendent, Educational Services, Pre K-6
Craig Rydquist	Associated Superintendent, Educational and Administrative Services
Randy Fillpot	Associated Superintendent, Educational Services, 7-12
Julie Chapin	Director, Business Services
Dennis Snelling	Director, Business Services

See accompanying note to supplementary information.

**MODESTO CITY SCHOOLS**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Second Period Report</u>	<u>Annual Report</u>
MODESTO CITY SCHOOLS		
ELEMENTARY		
Kindergarten	1,643.36	1,646.95
First through third	5,009.67	5,001.49
Fourth through sixth	4,587.74	4,582.36
Seventh and eighth	2,717.77	2,706.56
Home and hospital	3.18	3.99
Special education	515.25	525.42
Total Elementary	<u>14,476.97</u>	<u>14,466.77</u>
SECONDARY		
Regular classes	12,422.22	12,323.99
Continuation education	519.77	507.47
Home and hospital	15.01	18.46
Special education	735.09	735.81
Total Secondary	<u>13,692.09</u>	<u>13,585.73</u>
Grand Total	<u>28,169.06</u>	<u>28,052.50</u>
MODESTO VIRTUAL ACADEMY-CHARTER		
SECONDARY		
Regular classes (all non-classroom based attendance)	<u>23.57</u>	<u>22.09</u>

See accompanying note to supplementary information.

**MODESTO CITY SCHOOLS**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	34,500	33,542	35,000	175	N/A	Complied
Grades 1 - 3								
Grade 1	50,400	49,000	47,036	45,729	49,598	175	N/A	Complied
Grade 2	50,400	49,000	47,036	45,729	49,598	175	N/A	Complied
Grade 3	50,400	49,000	47,036	45,729	49,598	175	N/A	Complied
Grades 4 - 6								
Grade 4	54,000	52,500	50,854	49,441	53,147	175	N/A	Complied
Grade 5	54,000	52,500	50,854	49,441	53,147	175	N/A	Complied
Grade 6	54,000	52,500	50,854	49,441	53,147	175	N/A	Complied
Grades 7 - 8								
Grade 7	54,000	52,500	50,854	49,441	53,634	175	N/A	Complied
Grade 8	54,000	52,500	50,854	49,441	53,634	175	N/A	Complied
Grades 9 - 12								
Grade 9	64,800	63,000	56,505	54,935	63,002	175	N/A	Complied
Grade 10	64,800	63,000	56,505	54,935	63,002	175	N/A	Complied
Grade 11	64,800	63,000	56,505	54,935	63,002	175	N/A	Complied
Grade 12	64,800	63,000	56,505	54,935	63,027	175	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, 2011**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

**MODESTO CITY SCHOOLS**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 <sup>1</sup>	2011 <sup>3,4</sup>	2010 <sup>3</sup>	2009 <sup>3</sup>
<b>GENERAL FUND</b>				
Revenues	\$ 234,582,026	\$ 249,055,100	\$ 238,070,785	\$ 274,703,174
Other sources and transfers in	1,598,700	1,779,273	-	-
<b>Total Revenues</b>	<u>236,180,726</u>	<u>250,834,373</u>	<u>238,070,785</u>	<u>274,703,174</u>
Expenditures	248,284,575	237,366,794	245,921,027	263,728,003
Other uses and transfers out	1,265,807	1,583,038	1,421,389	508,409
<b>Total Expenditures     and Other Uses</b>	<u>249,550,382</u>	<u>238,949,832</u>	<u>247,342,416</u>	<u>264,236,412</u>
<b>INCREASE/(DECREASE) IN FUND BALANCE</b>	<u>\$ (13,369,656)</u>	<u>\$ 11,884,541</u>	<u>\$ (9,271,631)</u>	<u>\$ 10,466,762</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 49,156,007</u>	<u>\$ 62,525,663</u>	<u>\$ 50,641,122</u>	<u>\$ 59,912,753</u>
<b>AVAILABLE RESERVES<sup>2</sup></b>	<u>\$ 27,915,815</u>	<u>\$ 34,509,653</u>	<u>\$ 28,002,498</u>	<u>\$ 27,642,454</u>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<u>11.2%</u>	<u>14.4%</u>	<u>11.3%</u>	<u>10.5%</u>
<b>LONG-TERM OBLIGATIONS</b>	<u>Not Available</u>	<u>\$147,454,216</u>	<u>\$149,059,218</u>	<u>\$133,717,407</u>
<b>AVERAGE DAILY ATTENDANCE AT P-2</b>	<u>28,214</u>	<u>28,169</u>	<u>28,390</u>	<u>28,959</u>

The General Fund balance increased by \$2,612,910 over the past two years. The 2011-12 budget projects a decrease of \$13,369,656. For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2011-12 fiscal year. Total long-term obligations have increased by \$13,736,809 over the past two years.

Average daily attendance has decreased by 790 over the past two years. An increase of 45 ADA is anticipated during fiscal year 2011-12.

<sup>1</sup> Budget 2012 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On behalf payments have been excluded from the financial information presented.

<sup>4</sup> 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**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2011**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Modesto Virtual Academy (50-71175-0122549-1224)	Yes

See accompanying note to supplementary information.

**MODESTO CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	<b>Charter School Fund</b>	<b>Adult Education Fund</b>	<b>Child Development Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ -	\$ 348,727	\$ 43,190
Receivables	323,981	236,871	345,425
Due from other funds	331,677	-	-
Prepaid expenses	-	-	147
Stores inventories	-	-	-
<b>Total Assets</b>	<b>\$ 655,658</b>	<b>\$ 585,598</b>	<b>\$ 388,762</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ 1,777	\$ -	\$ -
Accounts payable	627,203	11,777	210,383
Due to other funds	26,678	406,077	53
Deferred revenue	-	-	177,255
<b>Total Liabilities</b>	<b>655,658</b>	<b>417,854</b>	<b>387,691</b>
<b>Fund Balances:</b>			
Nonspendable	-	-	147
Restricted	-	-	924
Committed	-	167,744	-
Assigned	-	-	-
<b>Total Fund Balances</b>	<b>-</b>	<b>167,744</b>	<b>1,071</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 655,658</b>	<b>\$ 585,598</b>	<b>\$ 388,762</b>

See accompanying note to supplementary information.

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<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
\$ 7,512,557	\$ 4,358,465	\$ 4,755,853	\$ 2,569,292	\$ 610,969
1,201,810	-	-	15,007	-
-	-	-	-	656
11,625	-	-	-	-
224,567	-	-	-	-
<u>\$ 8,950,559</u>	<u>\$ 4,358,465</u>	<u>\$ 4,755,853</u>	<u>\$ 2,584,299</u>	<u>\$ 611,625</u>
\$ -	\$ -	\$ -	\$ -	\$ -
244,748	-	-	-	74,105
769,819	3,524	656	-	-
-	-	-	-	-
<u>1,014,567</u>	<u>3,524</u>	<u>656</u>	<u>-</u>	<u>74,105</u>
236,751	-	-	-	-
7,699,241	-	4,755,197	2,584,299	537,520
-	4,354,941	-	-	-
-	-	-	-	-
<u>7,935,992</u>	<u>4,354,941</u>	<u>4,755,197</u>	<u>2,584,299</u>	<u>537,520</u>
<u>\$ 8,950,559</u>	<u>\$ 4,358,465</u>	<u>\$ 4,755,853</u>	<u>\$ 2,584,299</u>	<u>\$ 611,625</u>

**MODESTO CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET, Continued  
JUNE 30, 2011**

	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 9,903,003	\$ 7,798,838	\$ -
Receivables	563,485	-	-
Due from other funds	-	-	-
Prepaid expenses	-	-	-
Stores inventories	-	-	-
<b>Total Assets</b>	<b>\$ 10,466,488</b>	<b>\$ 7,798,838</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	-	-	-
Restricted	-	7,798,838	-
Committed	-	-	-
Assigned	10,466,488	-	-
<b>Total Fund Balances</b>	<b>10,466,488</b>	<b>7,798,838</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,466,488</b>	<b>\$ 7,798,838</b>	<b>\$ -</b>

See accompanying note to supplementary information.

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**Total  
Non-Major  
Governmental  
Funds**

\$	37,900,894
	2,686,579
	332,333
	11,772
	224,567
<hr/>	
\$	41,156,145
<hr/>	

\$	1,777
	1,168,216
	1,206,807
	177,255
<hr/>	
	2,554,055
<hr/>	

	236,898
	23,376,019
	4,522,685
	10,466,488
<hr/>	
	38,602,090
<hr/>	

\$	41,156,145
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**MODESTO CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Charter School Fund</b>	<b>Adult Education Fund</b>	<b>Child Development Fund</b>
<b>REVENUES</b>			
Revenue limit sources	\$ 145,338	\$ -	\$ -
Federal sources	-	77,184	5,011,857
Other State sources	21,048	559,414	5,470,640
Other local sources	2,395	3,098	112,968
<b>Total Revenues</b>	<b>168,781</b>	<b>639,696</b>	<b>10,595,465</b>
<b>EXPENDITURES</b>			
Current			
Instruction	274,450	107,190	3,342,437
Instruction-related activities:			
Supervision of instruction	1,614	842	2,272,832
School site administration	156,140	86,173	-
Pupil services:			
Food services	-	-	477,620
All other pupil services	-	13,181	96,493
Administration:			
All other administration	17,517	6,077	375,485
Plant services	21,603	27,237	342,960
Facility acquisition and construction	-	-	524,829
Community services	-	-	3,182,973
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>471,324</b>	<b>240,700</b>	<b>10,615,629</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(302,543)</b>	<b>398,996</b>	<b>(20,164)</b>
<b>Other Financing Sources (Uses)</b>			
Transfers in	302,543	-	20,217
Transfers out	-	(400,000)	-
<b>Net Financing Sources (Uses)</b>	<b>302,543</b>	<b>(400,000)</b>	<b>20,217</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(1,004)</b>	<b>53</b>
<b>Fund Balance - Beginning as Restated</b>	<b>-</b>	<b>168,748</b>	<b>1,018</b>
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ 167,744</b>	<b>\$ 1,071</b>

See accompanying note to supplementary information.

<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Building Fund</b>	<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>
\$ -	\$ -	\$ -	\$ -	\$ -
9,333,122	-	-	-	-
784,933	-	-	-	-
2,613,882	49,166	13,332	247,367	48,803
<u>12,731,937</u>	<u>49,166</u>	<u>13,332</u>	<u>247,367</u>	<u>48,803</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
9,487,272	-	-	-	-
-	-	-	-	-
364,297	-	-	-	-
587,221	57,084	-	123	-
127,801	46,251	14,935	8,021	3,185,307
-	-	-	-	-
545,567	-	-	625,138	-
37,481	-	15,119	38,065	-
<u>11,149,639</u>	<u>103,335</u>	<u>30,054</u>	<u>671,347</u>	<u>3,185,307</u>
<u>1,582,298</u>	<u>(54,169)</u>	<u>(16,722)</u>	<u>(423,980)</u>	<u>(3,136,504)</u>
-	-	-	-	2,084,222
<u>(278,188)</u>	<u>(84,222)</u>	<u>(2,000,000)</u>	<u>(6,580)</u>	<u>(2,210,917)</u>
<u>(278,188)</u>	<u>(84,222)</u>	<u>(2,000,000)</u>	<u>(6,580)</u>	<u>(126,695)</u>
1,304,110	(138,391)	(2,016,722)	(430,560)	(3,263,199)
6,631,882	4,493,332	6,771,919	3,014,859	3,800,719
<u>\$ 7,935,992</u>	<u>\$ 4,354,941</u>	<u>\$ 4,755,197</u>	<u>\$ 2,584,299</u>	<u>\$ 537,520</u>

**MODESTO CITY SCHOOLS**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES, Continued  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service Fund</b>
<b>REVENUES</b>			
Revenue limit sources	\$ -	\$ -	\$ -
Federal sources	-	-	840,918
Other State sources	-	124,039	-
Other local sources	(66,502)	7,343,556	-
<b>Total Revenues</b>	<u>(66,502)</u>	<u>7,467,595</u>	<u>840,918</u>
<b>EXPENDITURES</b>			
Current			
Instruction	-	-	-
Instruction-related activities:			
Supervision of instruction	-	-	-
School site administration	-	-	-
Pupil services:			
Food services	-	-	-
All other pupil services	-	-	-
Administration:			
All other administration	-	-	-
Plant services	-	-	-
Facility acquisition and construction	358,297	-	-
Community services	-	-	-
Debt service			
Principal	369,928	7,105,000	-
Interest and other	288,599	-	840,918
<b>Total Expenditures</b>	<u>1,016,824</u>	<u>7,105,000</u>	<u>840,918</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(1,083,326)</u>	<u>362,595</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	3,233,314	-	-
Transfers out	(780,000)	-	-
<b>Net Financing Sources (Uses)</b>	<u>2,453,314</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,369,988	362,595	-
<b>Fund Balance - Beginning as Restated</b>	9,096,500	7,436,243	-
<b>Fund Balance - Ending</b>	<u>\$ 10,466,488</u>	<u>\$ 7,798,838</u>	<u>\$ -</u>

See accompanying note to supplementary information.

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<b>Total Non-Major Governmental Funds</b>	
\$	145,338
	15,263,081
	6,960,074
	<u>10,368,065</u>
	<u>32,736,558</u>
	3,724,077
	2,275,288
	242,313
	9,964,892
	109,674
	763,376
	1,036,228
	4,265,441
	3,182,973
	8,645,633
	<u>1,220,182</u>
	<u>35,430,077</u>
	<u>(2,693,519)</u>
	5,640,296
	<u>(5,759,907)</u>
	<u>(119,611)</u>
	(2,813,130)
	41,415,220
\$	<u><u>38,602,090</u></u>

# MODESTO CITY SCHOOLS

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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### 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 primarily of ARRA State Fiscal Stabilization funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		\$ 46,510,880
Reconciling items:		
Food Distribution	10.555	637,086
ARRA: State Fiscal Stabilization	84.394	5,069,639
QSCB Interest Rate Subsidy	Not Available	(840,918)
Total Schedule of Expenditures of Federal Awards		<u>\$ 51,376,687</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 requirement, whichever is greater, as required by *Education Code* Section 46201.

# MODESTO CITY SCHOOLS

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

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

### **Non-Major Governmental Funds - 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.

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***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 the financial statements of the governmental activities, the major fund, the component unit, and the aggregate remaining fund information of Modesto City Schools as of and for the year ended June 30, 2011, which collectively comprise Modesto City Schools' basic financial statements and have issued our report thereon dated December 22, 2011. 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.

**Internal Control Over Financial Reporting**

The management of Modesto City Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Modesto City Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Modesto City Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Modesto City Schools' internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Modesto City Schools' financial statements are free of 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 22, 2011.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vannest, Eric, Day & Co., LLP*

Fresno, California  
December 22, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board  
Modesto City Schools  
Modesto, California

**Compliance**

We have audited Modesto City Schools' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Modesto City Schools' major Federal programs for the year ended June 30, 2011. Modesto City Schools' major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Modesto City Schools' management. Our responsibility is to express an opinion on Modesto City Schools' compliance based on our audit.

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. Our audit does not provide a legal determination of Modesto City Schools' compliance with those requirements.

In our opinion, Modesto City Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of Modesto City Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Modesto City Schools' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the Modesto City Schools' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vannoy, Eric, Day & Co., LLP*

Fresno, California  
December 22, 2011



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Governing Board  
 Modesto City Schools  
 Modesto, California

We have audited Modesto City Schools' compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Modesto City Schools' government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Modesto City Schools' management. Our responsibility is to express an opinion on Modesto City Schools' compliance based on our audit.

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 2010-11* 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.

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, 2011.

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	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District 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	4	Yes
Before school	5	Yes
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Yes
Determination of funding for non classroom-based instruction	3	Yes
Annual instruction minutes classroom based	3	Not Applicable

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vannoy, Eric, Day & Co., LLP*

Fresno, California  
December 22, 2011

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**MODESTO CITY SCHOOLS**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</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>Unqualified</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>84.010</u>	<u>Title I - Part A, Basic</u>
<u>84.377, 84.388 (ARRA)</u>	<u>School Improvement Grant Cluster</u>
	<u>(includes ARRA)</u>
<u>84.318, 84.386 (ARRA)</u>	<u>Educational Technology State Grants Cluster</u>
	<u>(includes ARRA)</u>
<u>84.394 (ARRA)</u>	<u>ARRA: State Fiscal Stabilization</u>
<u>84.410</u>	<u>Education Jobs Fund</u>
<u>93.600, 93.708 (ARRA)</u>	<u>Head Start Cluster (includes ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,562,761</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

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

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

**MODESTO CITY SCHOOLS**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

**MODESTO CITY SCHOOLS**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

# MODESTO CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *Financial Statement Findings*

2010-1    30000

#### ***INTERNAL CONTROL- ASSOCIATED STUDENT BODY***

##### **Criteria**

Internal Control-Safeguarding of Assets

##### **Conditions**

At various school sites tested, common items were noted:

- Deposits were not made in a timely manner.
- Revenue producing activities are not formally approved by the Principal.
- Reconciliation reports indicating the district office posting the school's transactions were not being transmitted to the site in a timely manner.
- Detailed schedules of monies deposited with the ASB Secretary are not required to be turned in with the deposit.
- Copies of checks are not kept in the bookkeeper's records, therefore, evidence of checks being signed by two authorized signors could not be obtained.
- Pre-numbered receipts are not issued to depositors in the school office.
- Inventory counts are not performed for the student store.
- Daily record of sales for the student store is not maintained.

##### **Effect**

ASB Funds could potentially be misappropriated.

##### **Cause**

Adequate internal control procedure have not been implemented and enforced.

##### **Fiscal Impact**

Not applicable.

# MODESTO CITY SCHOOLS

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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### **Recommendation**

We recommend that the school district implement the following controls: Deposits should be made on a daily basis. All revenue producing activities should be approved by the Principal on a fund raiser form. Reports indicating items posted by the district office should be sent to the site in a timely manner. Detailed lists indicating the student's name and amount collected from that student should be submitted to ASB with the deposit. Maintain copies of checks disbursed for ASB's records. Issue pre-numbered receipts to any individual making a deposit. An inventory count of the student store should be performed on a monthly basis. The student store should track sales for the day in order to support deposits made to the school office.

### **Current Status**

Implemented.