PRELIMINARY OFFICIAL STATEMENT DATED MAY 1, 2019

NEW ISSUE – BOOK ENTRY ONLY

RATING: Moody's: "Aa2"
(See "RATING" herein.)

In the opinion of Dannis Woliver Kelley, Bond Counsel to the District, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Bonds with certain covenants contained in the Resolutions authorizing the Bonds, and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

$16,000,000*
MODESTO CITY ELEMENTARY SCHOOL DISTRICT
(Stanislaus County, California)
GENERAL OBLIGATION BONDS
(Election of 2018 - Measure D), SERIES A

$11,000,000*
MODESTO CITY ELEMENTARY SCHOOL DISTRICT
(Stanislaus County, California)
GENERAL OBLIGATION BONDS
(Election of 2018 - Measure E), SERIES A

Dated: Date of Delivery **Due: August 1, as shown below**

The Modesto City Elementary School District (Stanislaus County, California) (the "District") General Obligation Bonds (Election of 2018 – Measure D), Series A (the "Measure D Bonds"), in the aggregate principal amount of $16,000,000*, were authorized at an election of the registered voters of the District held on November 6, 2018, at which the requisite 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of $74,000,000 principal amount of general obligation bonds of the District (the "Measure D Authorization"). The Measure D Bonds are being issued to finance the acquisition, construction, modernization and equipping of certain health and safety improvements at District sites and facilities and to pay the costs of issuing the Measure D Bonds. The Measure D Bonds are issued on a parity basis with all other general obligation bonds of the District, including the Measure E Bonds (defined below). See "PLAN OF FINANCING" herein.

The District's General Obligation Bonds (Election of 2018 – Measure E), Series A (the "Measure E Bonds" and, together with the Measure D Bonds, the "Bonds"), in the aggregate principal amount of $11,000,000*, were authorized at an election of the registered voters of the District held on November 6, 2018, at which the requisite 55% or more of the persons voting on the proposition voted to authorize the issuance and sale of $57,000,000 principal amount of general obligation bonds of the District (the "Measure E Authorization"). The Measure E Bonds are being issued to finance the acquisition, construction, modernization and equipping of certain classroom/science lab enhancements at District sites and facilities and to pay the costs of issuing the Measure E Bonds. The Measure E Bonds are issued on a parity basis with all other general obligation bonds of the District, including the Measure D Bonds. See "PLAN OF FINANCING" herein.

Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2020. See ''THE BONDS'' herein.

The Bonds will be issued in book-entry form only, in denominations of $5,000 principal amount or integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive certificates representing their interests in the Bonds. Payments on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "APPENDIX E – Book-Entry Only System."

The Bonds are subject to optional and mandatory redemption prior to maturity. See "THE BONDS – Redemption" herein.

The Bonds are general obligations of the District only and are not obligations of the County of Stanislaus (the "County"), the State of California, or any of its other political subdivisions.

The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District, without limitation as to rate or amount (except for certain property which is taxable at limited rates) in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal and premium, if any, and interest on each Bond as the same becomes due and payable.

The District has applied for insurance to guarantee the scheduled payment of principal of and interest on the Bonds when due under a policy of municipal bond insurance to be delivered concurrently with the issuance of the Bonds and, if a commitment for such insurance is offered, will decide whether to purchase such insurance. Such information will be released prior to the offering of the Bonds and will be included in the Official Statement.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE
(see inside front cover pages)

The Bonds are offered when, as and if issued, and received by the Underwriters subject to the approval as to their legality by Dannis Woliver Kelley, San Diego, California, Bond Counsel, and certain other conditions. Dannis Woliver Kelley, San Diego, California, is acting as Disclosure Counsel for the issue. Certain matters will be passed on for the Underwriters by Stradling Yocca Carlson & Rauth, A Professional Corporation. It is anticipated that the Bonds will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about May __, 2019.

RBC Capital Markets® PiperJaffray®

The Date of this Official Statement is: May __, 2019.

* Preliminary; subject to change.

MATURITY SCHEDULE

$16,000,000*
MODESTO CITY ELEMENTARY SCHOOL DISTRICT
(Stanislaus County, California)
GENERAL OBLIGATION BONDS (ELECTION OF 2018 - MEASURE D),
SERIES A

Base CUSIP†: ________

$_________ Serial Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP† Suffix

$______________ ___% Term Bonds due August 1, 20__ Yield _____ % CUSIP† Suffix: ___

$______________ ___% Term Bonds due August 1, 20__ Yield _____ % CUSIP† Suffix: ___

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Municipal Advisor or the Underwriters, and are included solely for the convenience of the registered owners of the applicable Bonds. None of the District, the Municipal Advisor or the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

MATURITY SCHEDULE

$11,000,000*
MODESTO CITY ELEMENTARY SCHOOL DISTRICT
(Stanislaus County, California)
GENERAL OBLIGATION BONDS (ELECTION OF 2018 - MEASURE E),
SERIES A

Base CUSIP†: ________

$_________ Serial Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP† Suffix

$______________ ___% Term Bonds due August 1, 20__ Yield _____ % CUSIP† Suffix: ___

$______________ ___% Term Bonds due August 1, 20__ Yield _____ % CUSIP† Suffix: ___

* Preliminary, subject to change.

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This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities. This Official Statement does not constitute an offer to sell, the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Certain information set forth herein has been obtained from sources outside the District which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

When used in this Official Statement and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced in this Official Statement, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

The Underwriters have provided the following sentence for inclusion in this Official Statement: "The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or the completeness of such information."

Although certain information set forth in this Official Statement has been provided by the County of Stanislaus, the County of Stanislaus has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds offered hereby at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain securities dealers, institutional investors, banks or other at prices lower or higher than the public offering prices stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The District maintains a website and social media accounts. However, the information presented on the District's website and/or posted on such social media accounts is not incorporated into this Official Statement by any reference, and should not be relied upon in making investment decisions with respect to the Bonds.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
Stanislaus County, State of California

Board of Education

John Walker, *President*
Cindy Marks, *Vice President*
Chad Brown, *Member*
John Ervin III, *Member*
Adolfo Lopez, *Member*
Amy Elliott Neumann, *Member*
Dr. Charlene G. West, *Member*

District Administrators

Sara Noguchi, Ed.D, *Superintendent*
Tim Zearley, *Associate Superintendent, Business Services and Chief Business Official*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Dannis Woliver Kelley
San Diego, California

Financial Advisor

Capitol Public Finance Group, LLC
Roseville, California

Transfer Agent, Registration Agent and Paying Agent

The Bank of New York Mellon Trust Company, N.A.
Dallas, Texas

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MODESTO CITY ELEMENTARY SCHOOL DISTRICT
(Stanislaus County, California)
GENERAL OBLIGATION BONDS
(Election of 2018 - Measure D),
SERIES A

$11,000,000[*]
MODESTO CITY ELEMENTARY SCHOOL DISTRICT
(Stanislaus County, California)
GENERAL OBLIGATION BONDS
(Election of 2018 - Measure E),
SERIES A

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

General

The Modesto City Elementary School District of Stanislaus County (the "District") proposes to issue $16,000,000[*] aggregate principal amount of its General Obligation Bonds (Election of 2018 - Measure D), Series A (the "Measure D Bonds"), under and pursuant to a bond authorization (the "Measure D Authorization") for the issuance and sale of not more than $74,000,000 of general obligation bonds approved by 55% or more of the qualified voters of the District voting on the measure at a general election held on November 6, 2018 (the "Election"). The Measure D Bonds are the first series of general obligation bonds to be issued under the Measure D Authorization. Subsequent to the issuance of the Measure D Bonds, $58,000,000[*] principal amount of general obligation bonds will remain for issuance pursuant to the Measure D Authorization.

The District also proposes to issue $11,000,000[*] aggregate principal amount of its General Obligation Bonds (Election of 2018 - Measure E), Series A (the "Measure E Bonds" and, together with the Measure D Bonds, the "Bonds" and, each series of the Bonds, a "Series"), under and pursuant to a bond authorization (the "Measure E Authorization" and, together with the Measure D Authorization, the "Authorizations") for the issuance and sale of not more than $57,000,000 of general obligation bonds approved by 55% or more of the qualified voters of the District voting on the measure at the Election. The Measure E Bonds are the first series of general obligation bonds to be issued under the Measure E Authorization. Subsequent to the issuance of the Measure E Bonds, $46,000,000[*] principal amount of general obligation bonds will remain for issuance pursuant to the Measure E Authorization.

The District

The District and the Modesto High School District of Stanislaus County (the "High School District") share a common Board of Education and administration. The District and the High School District remain legally separate and independent for certain purposes, but operate as a common administration school district known as Modesto City Schools ("Modesto City Schools"). The legal authority for the District and the High School District to operate together as Modesto City Schools is contained in Article 1.5 of Chapter 2 of part 21 of Division 3 of Title 2 (commencing with Section 35110) of the California Education Code (the "Common Administration Law"). In addition to the combined

[*] Preliminary; subject to change.

operations and administration, beginning with the 1989-90 fiscal year, the districts combined their finances, including the general fund, except that each independently retains its own capital facilities funds (developer fees), bond funds and capital assets.

Under the Common Administration Law, the High School District and the District are deemed a single school district for all purposes, including, but not limited to, budget and personnel matters, and the common governing board is deemed the governing board of a single school district. However, the District and the High School District continue to be treated as separate school districts for purposes of (a) computing state apportionments and allowances, (b) allocations of local property tax revenue, (c) holding separate title to property, and (d) any indebtedness, which remains the separate indebtedness of each district.

Modesto City Schools serves a 280 square-mile area comprising nearly all of the city of Modesto (the "City"), small portions of the cities of Ceres and Riverbank, and surrounding unincorporated communities in Stanislaus County (the "County"). The District was first organized in 1871, serves a large portion of the City, a small portion of the city of Ceres and adjacent unincorporated communities, and operates 22 elementary schools for grades K-6 and four junior high schools for grades 7-8. The District encompasses approximately 30 square miles and is located entirely within the boundaries of the High School District. The High School District was also formed in 1871.

The combined enrollment of Modesto City Schools in Fiscal Year 2018-19 (as of the Second Interim Report) was 30,014 students, of which 14,892 students attended the District, and 15,122 students attended the High School District. Modesto City Schools combined P-2 Average Daily Attendance ("ADA") was 28,163 for Fiscal Year 2018-19. The District has a 2018-19 total assessed valuation of $8,381,236,349.

The audited financial statements for the District for the fiscal year ended June 30, 2018 are attached hereto as APPENDIX C. See "THE DISTRICT" and "TAX BASE OF THE DISTRICT" herein.

The District is governed by a seven-member Board of Education (the "Board"), each member of which is elected by trustee areas to a four-year term. Elections for positions to the Board are held every two years, alternating between three and four available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District's other key personnel. Dr. Sara Noguchi is currently the Superintendent of the District. See "THE DISTRICT" herein.

Purpose of Issues

The Bonds are being issued, together with other available District funds, to (i) finance the acquisition, construction, modernization and equipping of District sites and facilities, and (ii) pay all legal, financial and contingent costs in connection with the issuance of the Bonds. See "PLAN OF FINANCING" below.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and other applicable law, and pursuant to resolutions adopted by the Board. The County adopted a resolution pursuant to Section 15140(b) of the State Education Code on March 21, 2001 that authorizes the District to issue the Bonds on its own behalf. See "THE BONDS – Authority for Issuance" herein. The Bonds are issued on a parity basis with all general obligation bonds of the District.

Registration

The Bank of New York Mellon Trust Company, N.A. will act as the initial registrar, transfer agent and paying agent for the Bonds (the "Paying Agent"). As long as The Depository Trust Company, New York, New York ("DTC") is the registered Owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to Owners only to DTC. See "THE BONDS – Description of the Bonds" herein.

Security and Sources of Payment for the Bonds

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds when due. See "THE BONDS – Security and Sources of Payment" and "TAX BASE OF THE DISTRICT" herein.

Bond Insurance

The District has applied for insurance to guarantee the principal of and interest on the Bonds when due under a policy of municipal bond insurance to be issued concurrently with the issuance of the Bonds by a municipal bond insurer ("Bond Insurer") and, if a commitment for such insurance is offered, will decide whether to purchase such insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "RATING" herein.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District or the Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment.

Redemption

The Bonds maturing on or after August 1, 20__* are subject to optional redemption prior to their respective stated maturity dates, as a whole or in part, as described herein. The Bonds are further subject to mandatory sinking fund redemption as described herein. See "THE BONDS – Redemption" herein.

Tax Matters

In the opinion of Dannis Woliver Kelley, San Diego, California, Bond Counsel, subject, however to the qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on the owners thereof. In the further opinion of Bond Counsel, such interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of each Continuing Disclosure Agreement executed by the District in connection with the Bonds. See "CONTINUING DISCLOSURE" and "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

Closing

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds, each in book-entry form, will be available for delivery through the facilities of DTC on or about May __, 2019. See "UNDERWRITING" herein.

* Preliminary; subject to change

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the State Government Code (the "Bond Act"), Article XIIIA of the State Constitution and pursuant to resolutions adopted by the Board on April 15, 2019 (the "Resolutions"). The County has previously adopted a resolution pursuant to Section 15140(b) of the State Education Code authorizing the District to issue general obligation bonds on its own behalf.

The District received authorization at the Election at which the requisite 55% or more of the persons voting on Measure D and Measure E voted to authorize the issuance and sale of $74,000,000 principal amount of Measure D general obligation bonds of the District and $57,000,000 principal amount of Measure E general obligation bonds of the District. Each series of Bonds represent the first series of bonds issued pursuant to the respective Authorization. Following the issuance of the Measure D Bonds, $58,000,000* of the Measure D Authorization will remain. Following the issuance of the Measure E Bonds, $46,000,000* of the Measure E Authorization will remain.

Security and Sources of Payment

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds when due. The levy may include an allowance for an annual reserve, established for the purpose of avoiding fluctuating tax levies. The County, however, is not obligated to establish such a reserve, and the District can make no representation that such reserve will be established by the County or that such a reserve, if previously established by the County, will be maintained in the future.

Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be placed by the County in the Interest and Sinking Fund (as defined herein), which is required to be segregated and maintained by the County and which is designated for the payment, when due, of the principal of and interest on the Bonds, and for no other purpose. Pursuant to the Bond Resolution, the District has pledged funds on deposit in each Interest and Sinking Fund to the payment of the Bonds. Although the County is obligated to levy *ad valorem* property taxes for the payment of the Bonds as described above, and will maintain an Interest and Sinking Fund for each series, none of the Bonds are a debt of the County.

The moneys in each Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the related Bonds as the same become due and payable, will be transferred to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal and interest to its Participants for subsequent disbursement to the Beneficial Owners of the Bonds.

The rate of the annual *ad valorem* property taxes levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rates to fluctuate. Economic and other factors beyond the District's control, such as general market decline in real

* Preliminary, subject to change.

property values, disruption in financial markets that may reduce the availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood, fire, drought or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the respective annual tax rates. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIA of the California Constitution" and "TAX BASE OF THE DISTRICT" herein.

Statutory Lien. Pursuant to State Government Code Section 53515, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. The lien automatically attaches, without further action or authorization by the Board, and is valid and binding from the time the Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the lien, and such lien will be enforceable against the District, its successor, transferees and creditors, and all other parties asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

This statutory lien, by its terms, secures not only the Bonds, but also any other bonds of the District issued after January 2016 and payable, both as to principal and interest, from the proceeds of *ad valorem* taxes that may be levied pursuant to paragraphs (2) and (3) of subdivision (b) of Section 1 of Article XIIIA of the State Constitution. The statutory lien provision does not specify the relative priority of obligations so secured or a method of allocation in the event that the revenues received pursuant to the levy and collection of the tax are insufficient to pay all amounts then due and owing that are secured by the statutory lien.

Description of the Bonds

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for DTC. Purchasers will not receive certificates representing their interests in the Bonds. See "APPENDIX E – BOOK-ENTRY ONLY SYSTEM" herein.

Interest on each Bond shall accrue from its dated date at the interest rates applicable thereto as set forth on the inside cover page hereof. Interest shall be computed using a year of 360 days comprised of twelve 30-day months and shall be payable on each Interest Payment Date to the Owner thereof as of the close of business on the fifteenth calendar day of the month next preceding an Interest Payment Date (the "Record Date"). Interest will be payable from the Interest Payment Date next preceding the date of registration thereof, unless (i) it is registered during the period from the 16th day of the month immediately preceding any Interest Payment Date to that Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or (ii) it is registered prior to the close of business on January 15, 2020, in which event interest shall be payable from its Dated Date; provided, however, that if at the time of registration of any Bond interest with respect thereto is in default, interest with respect thereto shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. Payments of interest will be made on each Interest Payment Date by check or draft of the Paying Agent sent by first-class mail, postage prepaid, to the Owner thereof on the Record Date, or by wire transfer to any Owner of $1,000,000 or more of such Bonds, to the account specified by such Owner in a written request delivered to the Paying Agent on or prior to the Record Date for such Interest Payment Date; provided, however, that payments of defaulted interest shall be payable to the person in whose name such Bond is registered at the close of business on a special record date fixed therefor by the Paying Agent which shall not be more than 15 days and not less than ten days prior to the date of the proposed payment of defaulted interest. See "APPENDIX E – BOOK-ENTRY ONLY SYSTEM" herein.

Annual Debt Service

The following table shows the annual debt service schedule with respect to the Bonds (assuming no optional redemptions are made):

	Series D Bonds		Series E Bonds		
Period Ending (August 1)	Annual Principal Payment	Annual Interest Payment[1]	Annual Principal Payment	Annual Interest Payment[1]	Aggregate Debt Service
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
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2048					
2049					
Totals					

(1) Interest payments will be made semiannually on February 1 and August 1 of each year, commencing February 1, 2020.

See "DISTRICT FINANCIAL INFORMATION – Certain Existing Obligations – General Obligation Bonds" herein for a schedule of the combined debt service requirements for all of the District's outstanding general obligation bonds.

Application and Investment of Bond Proceeds

The Bonds are being issued to finance the acquisition of land, and construction, modernization and equipping of District sites and facilities and to pay the costs of issuance of the Bonds.

Building Fund. The net proceeds of the sale of the Bonds of a Series shall be deposited in the Modesto City Elementary School District General Obligation Bonds, Election of 2018 – Measure [D/E], Series A Building Fund (each, a "Building Fund") and will be applied solely for the purposes approved by the voters of the District pursuant to the applicable Authorization. Any interest earnings on moneys held in a Building Fund shall be retained in that Building Fund. Any excess proceeds of the Bonds not needed for the authorized purposes for which the Bonds are being issued shall be transferred to the Interest and Sinking Fund and applied to the payment of principal of and interest on the Bonds.

Interest and Sinking Fund. Any premium or accrued interest received by the District on the sale of the Bonds of a series shall be deposited in the fund held by the County and known as the "Modesto City Elementary School District General Obligation Bonds, Election of 2018, Measure [D/E], Series A Interest and Sinking Fund" (each, an "Interest and Sinking Fund"). Any interest earnings on moneys held in an Interest and Sinking Fund shall be retained in that Interest and Sinking Fund. If, after all of the Bonds have been redeemed and cancelled or paid and cancelled, there are moneys remaining in the Interest and Sinking Fund or otherwise held in trust for the payment of the redemption price of the Bonds, said moneys shall be transferred to the general fund of the District as provided and permitted by law.

Expected Investment of Bond Proceeds. Moneys in the Building Fund and the Interest and Sinking Fund are expected to be invested through the County Investment Pool. See "APPENDIX F – COUNTY INVESTMENT POOL" attached hereto.

Redemption

Optional Redemption.* The Bonds maturing on or before August 1, 20__ are not subject to redemption. The Bonds maturing on or after August 1, 20__ are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part on any date, on or after August 1, 20__, at a redemption price equal to the principal amount of the Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Redemption.* The Bonds maturing on August 1, 20__, are subject to redemption prior to maturity from mandatory sinking fund payments on August 1 of each year, on and after August 1, 20__, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium. The principal amounts represented by such Bonds to be so redeemed and the dates therefor and the final principal payment date are as indicated in the following table:

Redemption Date (August 1)	Principal Amount to be Redeemed
Total	

(1) Maturity.

* Preliminary, subject to change.

In the event that a portion of the Bonds maturing on August 1, 20__ are optionally redeemed prior to maturity, the remaining mandatory sinking fund payments shown above shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000 of principal amount, in respect of the portion of such Bonds optionally redeemed.

Selection of Bonds for Redemption. Whenever provision is made for the redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent shall select Bonds for redemption in inverse order of maturity or in such order as the District may otherwise direct. Within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; *provided*, *however*, that the portion of any Bond to be redeemed in part shall be in the principal amount of $5,000 or any integral multiple thereof.

Notice of Redemption. When redemption is authorized, the Paying Agent shall give notice of the redemption of the Bonds at least 20 but not more than 60 days prior to the redemption date to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid. Such redemption notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the principal amount, as appropriate, of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such redemption notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with the interest accrued to the redemption date in the case of Bonds, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Right to Rescind Notice of Redemption for the Bonds. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund of the District held by the County or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of and interest and any premium due on the Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the registered Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such registered Owner, and the Paying Agent and the District shall be released and discharged thereupon from all liability to the extent of such payment.

Effect of Notice of Redemption for the Bonds. Notice having been given as required for a Series of Bonds in the respective Resolution, and the moneys for redemption (including the interest to the applicable date of redemption) having been set aside for payment of the redemption price, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

Transfer and Exchange. Any Bond may be exchanged for Bonds of like tenor, series, maturity and principal amount upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of such Bond at the principal office of the Paying Agent together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Defeasance

If any or all Outstanding Bonds shall be paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the principal of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the interest to accrue thereon without the need for further investment, is fully sufficient to pay all Bonds Outstanding at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or (c) by depositing with the Paying Agent or an institution to act as escrow agent selected by the District and which meets the requirements of serving as Paying Agent for a Series of Bonds pursuant to the respective Resolution, in trust, lawful money or noncallable direct obligations issued by the United States Treasury (including State and Local Government Series Obligations) or obligations which are unconditionally guaranteed by the United States of America and described under Section 149(b) of the Internal Revenue Code of 1986, as amended, and related regulations, which, in the opinion of nationally recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient, in the opinion of a verification agent satisfactory to the District, to pay and discharge all Bonds Outstanding at or before their respective maturity dates, including any premium and all interest thereon, notwithstanding that any Bonds of a Series shall not have been surrendered for payment; then all obligations of the District and the Paying Agent under the respective Resolution with respect to such Outstanding Bonds of a Series shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent under the respective Resolution for such Series of Bonds.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Bonds are expected to be applied as follows:

Sources of Funds	**Measure D Bonds**	**Measure E Bonds**	**Total**
Principal Amount of Bonds			
Original Issue Premium			
Total Sources			
Uses of Funds			
Building Fund			
Costs of Issuance(1)			
Total Uses			

(1) Payment of Underwriters' discount, Bond and Disclosure Counsel fees, financial advisory fees, bond insurance premium, if any, rating agency fees, and other costs of issuance.

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DEBT SERVICE SCHEDULE

The table below shows the annual debt service payments on all of the District's outstanding general obligation bonds, comprising the Bonds, and the General Obligation Bonds, Election of 2001, (2002) Series A (the "2002 Bonds"):

DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATION BONDS

Period Ending August 1	2002 Bonds[1]	Measure D Bonds	Measure E Bonds	Total Debt Service
2019	$ 2,280,000			
2020	2,360,000			
2021	2,440,000			
2022	2,525,000			
2023	2,615,000			
2024	2,705,000			
2025	2,800,000			
2026	2,900,000			
2027	3,000,000			
2028	--			
2029	--			
2030	--			
2031	--			
2032	--			
2033	--			
2034	--			
2035	--			
2036	--			
2037	--			
2038	--			
2039	--			
2040	--			
2041	--			
2042	--			
2043	--			
2044	--			
2045	--			
2046	--			
2047	--			
2048	--			
2049	--			
Total	$23,625,000			

(1) The 2002 Bonds are capital appreciation bonds, and the debt service reflects the accreted value of the 2002 Bonds for the period then ended.

PLAN OF FINANCING

The District intends to apply the proceeds of the sale of the Measure D Bonds to (i) finance the acquisition, construction, modernization, and equipping of certain health and safety improvements at District sites and facilities, and (ii) pay the costs of issuance of the Measure D Bonds. The District intends to apply the proceeds of the sale of the Measure E Bonds to (i) finance the acquisition, construction, modernization, and equipping of certain classroom/science lab enhancements at District sites and facilities, and (ii) pay the costs of issuance of the Measure E Bonds.

The net proceeds of the Bonds will be transferred to the County for deposit in the respective Building Fund for a Series, to finance the capital projects of the District approved by the respective Authorization, each as more particularly set forth in the Bond Project List for each Series approved by the voters at the Election.

TAX BASE OF THE DISTRICT

The information in this section describes ad valorem property taxation, assessed valuation, and other aspects of the District's tax base.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1, effective with the lien date of January 1, 1997. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special and school districts. In addition, the County levies and collects additional approved property taxes and assessments on behalf of any taxing agency within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the County Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIIIA of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

A State-reimbursed exemption currently provides a credit of $7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

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The following table presents the historical assessed valuation in the District for fiscal years 2002-03 through 2018-19, including the annual percent change. Total assessed valuation of property within the District was $8,381,236,349 in fiscal year 2018-19.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
Summary of Assessed Valuations
Fiscal Years 2002-03 Through 2018-19

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2002-03	$4,657,291,349	$ 9,406,589	$426,749,283	$5,093,447,221	--
2003-04	4,964,055,283	10,143,064	439,948,874	5,414,147,221	6.3 %
2004-05	5,355,010,545	11,006,791	424,459,505	5,790,476,841	7.0
2005-06	5,883,358,856	10,943,926	434,098,691	6,328,401,473	9.3
2006-07	6,697,173,537	10,640,312	512,134,164	7,219,948,013	14.1
2007-08	7,242,704,201	1,778,821	502,760,217	7,747,243,239	7.3
2008-09	6,755,114,593	2,804,544	509,470,398	7,267,389,535	(6.2)
2009-10	5,974,340,354	1,746,225	561,405,242	6,537,491,821	(10.0)
2010-11	5,728,610,715	1,746,225	542,549,913	6,272,906,853	(4.0)
2011-12	5,505,096,802	1,746,225	538,107,518	6,044,950,545	(3.6)
2012-13	5,374,245,889	1,581,018	539,431,192	5,915,258,099	(2.1)
2013-14	5,666,492,928	1,581,018	535,360,694	6,203,434,640	4.9
2014-15	6,178,383,400	1,581,018	538,131,260	6,718,095,678	8.3
2015-16	6,602,231,292	1,581,018	523,806,660	7,127,618,970	6.1
2016-17	6,991,049,864	1,788,610	531,073,013	7,523,911,487	5.6
2017-18	7,447,631,722	1,788,610	518,535,279	7,997,955,611	6.3
2018-19	7,810,897,751	1,645,299	568,693,299	8,381,236,349	4.8

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District's control, such as a general market decline in real property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, drought, flood, fire or toxic contamination, could cause a reduction in the assessed value of taxable property within the District. Any such reduction would result in a corresponding increase in the annual tax rate levied by the County to pay the debt service with respect to the Bonds. See "THE BONDS – Security and Sources of Payment" and "TAX BASE OF THE DISTRICT – Recent California Drought Conditions, Mudslides and Wildfires" herein.

Appeals and Adjustments of Assessed Valuations

Under State law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization (the "SBE"), with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution. See “TAX BASE OF THE DISTRICT – Recent California Drought Conditions, Mudslides and Wildfires” herein.

Whether resulting from taxpayer appeals or county assessor reductions, adjustments to assessed value are subject to yearly reappraisals by the county assessor and may be adjusted back to their original values when real estate market conditions improve. Once property has regained its prior assessed value, adjusted for inflation, it once again is subject to the annual inflationary growth rate factor allowed under Article XIIIA. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS — Article XIIIA of the California Constitution” herein.

The District does not have information regarding pending appeals of assessed valuation of property within the District. No assurance can be given that property tax appeals currently pending or in the future, or actions by county assessors, will not significantly reduce the assessed valuation of property within the District.

Recent California Drought Conditions, Mudslides and Wildfires

Water shortfalls resulting from the driest conditions in recorded State history caused Governor Brown, on January 17, 2014, to declare a State-wide Drought State of Emergency for California and directed State officials to take all necessary actions to prepare for water shortages. Following the Governor’s declaration, the California State Water Resources Control Board (the “Water Board”) issued a statewide notice of water shortages and potential future curtailment of water right diversions. Subsequent executive orders and Water Board regulations imposed reductions on water usage in response to the drought conditions. On April 7, 2017, the Governor announced the end of the State-wide drought in all but four counties in California but extended conservation measures indefinitely in order to prepare California for fluctuations in water conditions and potential future drought conditions. According to the U.S. Drought Monitor, as of March, 2019, California is not currently experiencing any drought conditions. Additionally, in 2017 and 2018, certain portions of the State were affected by large wildfires and mudslides which destroyed both natural lands and residential and commercial properties and resulted in large-scale property value reductions in the impacted areas. The District was not impacted by the wildfires.

The District cannot make any representation regarding the effects that future droughts or wildfires may have on the assessed value of taxable property within the District, or to what extent such events could cause disruptions to agricultural production, reduce land values, or adversely impact other economic activity within the boundaries of the District.

Assessed Valuation of Single Family Homes

The following table shows the distribution of single family homes within the District among various fiscal year 2018-19 assessed valuation ranges, as well as the average and median assessed valuation of single family homes within the District.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
2018-19 Per Parcel Assessed Valuation of Single Family Homes[(1)]

	No. of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	27,705	$4,417,654,968	$159,453	$140,689

2018-19 Assessed Valuation	No. of Parcels	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	206	0.744%	0.744%	$3,918,083	0.089%	0.089%
$25,000 - $49,999	1,662	5.999	6.742	66,719,219	1.510	1.599
$50,000 - $74,999	3,171	11.446	18.188	198,904,293	4.502	6.101
$75,000 - $99,999	3,285	11.857	30.045	288,078,125	6.521	12.623
$100,000 - $124,999	3,470	12.525	42.570	390,800,611	8.846	21.469
$125,000 - $149,999	3,232	11.666	54.236	443,785,208	10.046	31.515
$150,000 - $174,999	2,753	9.937	64.173	446,587,833	10.109	41.624
$175,000 - $199,999	2,353	8.493	72.666	440,938,355	9.981	51.605
$200,000 - $224,999	1,893	6.833	79.498	401,483,523	9.088	60.693
$225,000 - $249,999	1,648	5.948	85.447	391,326,690	8.858	69.551
$250,000 - $274,999	1,172	4.230	89.677	306,961,371	6.949	76.500
$275,000 - $299,999	834	3.010	92.687	238,700,902	5.403	81.903
$300,000 - $324,999	571	2.061	94.748	177,831,812	4.025	85.929
$325,000 - $349,999	335	1.209	95.957	112,910,570	2.556	88.485
$350,000 - $374,999	246	0.888	96.845	88,978,009	2.014	90.499
$375,000 - $399,999	202	0.729	97.574	77,944,168	1.764	92.263
$400,000 - $424,999	156	0.563	98.138	64,230,887	1.454	93.717
$425,000 - $449,999	119	0.430	98.567	51,984,664	1.177	94.894
$450,000 - $474,999	95	0.343	98.910	43,948,802	0.995	95.889
$475,000 - $499,999	72	0.260	99.170	35,039,382	0.793	96.682
$500,000 and greater	230	0.830	100.000	146,582,461	3.318	100.000
Total	27,705	100.000%		$4,417,654,968	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

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The table below presents the 2018-19 assessed valuation within the District by land use.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
2018-19 Assessed Valuation and Parcels by Land Use

Non-Residential:	2018-19 Assessed Valuation[1]	% of Total	% of Parcels	% of Total
Agricultural/Rural	$ 47,716,112	0.61%	93	0.27%
Commercial/Office	1,373,099,551	17.58	1,897	5.52
Vacant Commercial	24,683,273	0.32	202	0.59
Industrial	1,342,324,247	17.19	565	1.64
Vacant Industrial	16,853,181	0.22	153	0.45
Government/Social/Institutional	4,004,922	0.05	633	1.84
Subtotal Non-Residential	$2,808,681,286	35.96%	3,543	10.31%
Residential:				
Single Family Residence	$4,417,654,968	56.56%	27,705	80.62%
Condominium	50,526,323	0.65	363	1.06
Mobile Home	6,423,475	0.08	213	0.62
Mobile Home Park	17,309,475	0.22	16	0.05
2-3 Residential Units	342,296,303	4.38	1,922	5.59
4+ Residential Units/Apartments	146,493,211	1.88	165	0.48
Vacant Residential	21,512,710	0.28	438	1.27
Subtotal Residential	$5,002,216,465	64.04%	30,822	89.69%

(1) Local secured assessed valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

The table below presents the 2018-19 assessed valuation within the District by jurisdiction.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
2018-19 Assessed Valuation by Jurisdiction

Jurisdiction:	Assessed Valuation in School District	% of School District	Assessed Valuation of Jurisdiction	% of Jurisdiction in School District
City of Ceres	$ 34,142,465	0.41%	$3,087,745,768	1.11%
City of Modesto	6,509,639,030	77.67	$16,509,788,235	39.43%
Unincorporated Stanislaus County	1,837,454,854	21.92	$15,336,518,006	11.98%
Total District	$8,381,236,349	100.00%		
Stanislaus County	$8,381,236,349	100.00%	$49,523,600,525	16.92%

Source: California Municipal Statistics, Inc.

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The table below sets forth the largest local secured taxpayers within the District in fiscal year 2018-19.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
2018-19 Largest Total Secured Taxpayers

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	% of Total [1]
1.	E&J Gallo Winery	Industrial – Food Processing	$805,939,597	10.32%
2.	Doctors Med. Ctr. Modesto	Hospital	136,157,590	1.74
3.	Foster Dairy Farm	Industrial – Food Processing	77,854,595	1.00
4.	G3 Enterprises Inc.	Heavy Industrial	39,015,385	0.50
5.	Modesto Hospitality LLC	Hotel	37,922,169	0.49
6.	D Street Partners	Industrial – Food Processing	34,244,000	0.44
7.	4701 Stoddard LLC	Office Building	24,285,661	0.31
8.	Broadstone SSH California LLC	Prof. Building	23,206,020	0.30
9.	P&O Cold Logistics LLC	Warehouse	22,776,406	0.29
10.	Mercer Foods LLC	Industrial – Food Processing	20,910,500	0.27
11.	Briggsmore Shopping Center	Shopping Center	19,247,974	0.25
12.	CIBC18-2401 Orangeburg Ave LLC	Shopping Center	18,666,000	0.24
13.	Granite & Gold Scenic Place LLC	Shopping Center	17,462,195	0.22
14.	The Shannon Company	Office Building	13,672,000	0.18
15.	Jackson Retail Venture LLC	Movie Theater	13,500,000	0.17
16.	Susan Parodi	Light Industrial	11,645,273	0.15
17.	Thousand Oaks Exec. Center LLC	Office Building	10,824,000	0.14
18.	Diana L. Soranno	Shopping Center	9,969,731	0.13
19.	Maxine Papadakis	Office Building	9,384,907	0.12
20.	Modesto Finance LP	Office Building	9,359,871	0.12

(1) 2018-19 Local Secured Assessed Valuation: $7,810,897,751
Source: California Municipal Statistics, Inc.

According to California Municipal Statistics, Inc., the largest secured taxpayer in the District for 2018-19 is E&J Gallo Winery (assessed valuation of $805,939,597), accounting for 10.32% of the total secured assessed value in the District. No other secured taxpayer accounted for more than 1.74% of the total secured assessed value in the District. The more property (by assessed value) owned by a single taxpayer, the more collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner.

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Tax Rates

The following table sets forth the tax rate levied in a typical tax rate area, Tax Rate Area (TRA) 2-001, during fiscal years 2014-15 through 2018-19:

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
Typical Tax Rate per $100 Assessed Valuation (TRA 2-001)[1]

	2014-15	2015-16	2016-17	2017-18	2018-19
General Tax Rate	1.000000 %	1.000000 %	1.000000 %	1.000000 %	1.000000 %
Modesto City School District	**.030997**	**.026006**	**.026951**	**.025861**	**.027013**
Modesto High School District	.039014	.034331	.035578	.035130	.036813
Yosemite Community College District	.021823	.026920	.023034	.024068	.025974
Total Tax Rate	**1.091834 %**	**1.087257 %**	**1.085563 %**	**1.085059 %**	**1.089800 %**

(1) 2018-19 assessed valuation of TRA 2-001 is $3,344,697,316, which represents 39.91% of the District's assessed value.
Source: California Municipal Statistics, Inc.

The Teeter Plan

The Board of Supervisors of the County approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan for the County, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan for the County is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County Treasury is the legal depository of tax collections.

Under the Teeter Plan, the District will receive 100% of its *ad valorem* property tax levied with respect to the Bonds irrespective of actual delinquencies in the collection of property taxes by the County.

The Teeter Plan of the County is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County orders discontinuance of its Teeter Plan, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency. In addition, if the delinquency rate for all *ad valorem* property taxes levied within the District exceeds 3%, the Board of Supervisors can terminate the Teeter Plan with respect to the District. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes would depend upon the collection of *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

The District is not aware of any petitions for the discontinuance of the Teeter Plan now pending in the County.

Direct and Overlapping Debt

Numerous local agencies which provide public services overlap the District's service area. These local agencies have outstanding debt in the form of general obligation, lease revenue and special assessment bonds. The following table shows the District's estimated direct and overlapping bonded debt. The statement excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The District has not reviewed this table and there can be no assurance as to the accuracy of the information contained in the table; inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

The following table is a statement of the District's direct and estimated overlapping bonded debt as of April 1, 2019 for all debt issued as of March 13, 2019:

MODESTO CITY ELEMENTARY SCHOOL DISTRICT
DIRECT AND OVERLAPPING BONDED INDEBTEDNESS

2018-19 Assessed Valuation: $8,381,236,349

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	**% Applicable**	**Debt 4/1/19**
Yosemite Community College District	12.442%	$33,615,037
Modesto High School District	34.670	9,768,753
Modesto City School District	**100.000**	**6,908,870**[(1)]
City of Modesto Community Facilities District No. 2003-1	100.000	4,315,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$54,607,660
OVERLAPPING GENERAL FUND DEBT:		
Stanislaus County Certificates of Participation	16.924%	$ 4,302,081
Stanislaus County Office of Education Certificates of Participation	16.924	368,943
Modesto High School District Certificates of Participation	34.670	5,692,814
City of Modesto Certificates of Participation	39.429	20,936,799
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$31,300,637
Less: City of Modesto supported obligations		861,524
TOTAL NET OVERALPPING GENERAL FUND DEBT		$30,439,113
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$15,857,499
GROSS COMBINED TOTAL DEBT		$101,765,796[(2)]
NET COMBINED TOTAL DEBT		$100,904,272

Ratios to 2018-19 Assessed Valuation:
Direct Debt ($6,908,870).. 0.08%
Total Direct and Overlapping Tax and Assessment Debt.................... 0.65%
Gross Combined Total Debt.. 1.21%
Net Combined Total Debt.. 1.20%

Ratio to Redevelopment Incremental Valuation ($1,358,287,266):
Overlapping Tax Increment Debt... 1.17%

(1) Excludes the Bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Source: California Municipal Statistics, Inc.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

The information in this section concerning the operations of the District, the District's finances and State funding of education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem *tax approved by the voters pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on all property within the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "THE BONDS – Security and Sources of Payment" and "TAX BASE OF THE DISTRICT" herein.*

District Organization

The District and the Modesto High School District (the "High School District") share a common Board of Education and administration. The districts remain legally separate and independent for certain purposes, but operate as a common administration school district known as Modesto City Schools ("Modesto City Schools"). The legal authority for the District and the High School District to operate together as Modesto City Schools is contained in Article 1.5 of Chapter 2 of part 21 of Division 3 of Title 2 (commencing with Section 35110) of the California Education Code (the "Common Administration Law"). In addition to the combined operations and administration, beginning with the 1989-90 fiscal year, the districts combined their finances, including the general fund, except that each independently retains its own capital facilities funds (developer fees), bond funds and capital assets.

Under the Common Administration Law, the High School District and the District are deemed a single school district for all purposes, including, but not limited to, budget and personnel matters, and the common governing board is deemed the governing board of a single school district. However, the District and the High School District continue to be treated as separate school districts for purposes of (a) computing state apportionments and allowances, (b) allocations of local property tax revenue, (c) holding separate title to property, and (d) any indebtedness, which remains the separate indebtedness of each district.

Modesto City Schools serves a 280 square-mile area comprising nearly all of the city of Modesto (the "City"), small portions of the cities of Ceres and Riverbank, and surrounding unincorporated communities in Stanislaus County (the "County"). The District was first organized in 1871, serves a large portion of the City, a small portion of the city of Ceres and adjacent unincorporated communities, and operates 22 elementary schools for grades K-6 and four junior high schools for grades 7-8. There are eight total elementary school districts within the boundaries of the High School District, including the District. The District encompasses approximately 30 square miles and is located entirely within the boundaries of the High School District. The High School District operates seven comprehensive high schools for grades 9-12, a school that provides various alternative and continuation programs, and an adult education program. The High School District was also formed in 1871.

The combined enrollment of Modesto City Schools in Fiscal Year 2018-19 (as of the Second Interim Report) was 30,014 students, of which 14,892 students attended the District, and 15,122 students attended the High School District. Modesto City Schools combined P-2 Average Daily Attendance ("ADA") was 28,163 for Fiscal Year 2018-19. The District has a 2018-19 total assessed valuation of $8,381,236,349. The audited financial statements for the District for the fiscal year ended June 30, 2018 are attached hereto as APPENDIX C.

The District is governed by a Board of Education (the "Board"). The Board consists of seven members who are elected based on trustee areas to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board members or by a special election. The years in which the current terms for each member of the Board expire are set forth in the following table:

BOARD OF EDUCATION

Name	Office	Term Expires December
John Walker	President	2019
Cindy Marks	Vice President	2021
Chad Brown	Member	2021
John Ervin III	Member	2019
Adolfo Lopez	Member	2021
Amy Elliott Neumann	Member	2019
Dr. Charlene G. West	Member	2021

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by Modesto City Schools. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of Modesto City Schools, including the District, may be obtained by contacting: Modesto City Schools, 426 Locust Street, Modesto, California 95351, Attention: Superintendent. The District may charge a small fee for copying, mailing and handling.

Key Personnel

The following is a listing of the key administrative personnel of the District.

Name	Title
Sara Noguchi, Ed.D	Superintendent
Tim Zearley	Associate Superintendent, Business Services and Chief Business Official

Sara Noguchi, Ed.D, Superintendent. Superintendent Noguchi has served as the superintendent of the District since July 2018. She has a 29-year career in education. Dr. Noguchi began her career in education as a teacher, in the Elk Grove Unified School District ("EGUSD"), from 1992 to 2002. In 2002, she moved into administration, serving EGUSD as principal at several school sites through 2011. Beginning in 2011, she served as Assistant Superintendent for the Central Area to Sacramento City Unified School District ("SCUSD") and, later, served as interim Superintendent to SCUSD. Prior to her current position with Modesto City Schools, Dr. Noguchi served as Associate Superintendent of Innovation, Research and Design for the Twin Rivers Unified School District, from 2015 to 2018. Dr. Noguchi has a Doctor of Education degree in Administration and Supervision, and an Administrative Services Credential from University of the Pacific, a Master of Arts degree in Curriculum and Instruction from California State University, Sacramento, and a Bachelor of Arts degree in Liberal Studies from San Diego State University.

Tim Zearley, Associate Superintendent, Business Services and Chief Business Official. Mr. Zearley has served as the Associate Superintendent, Business Services and Chief Business Official ("CBO") of the District since July 1, 2017. Prior to the District, he was the Assistant Superintendent of Business Services at Amador County Unified School District ("Amador County USD") and the Amador County Office of Education ("Amador COE"). Prior to the positions held with Amador COE and Amador County USD, Mr. Zearley was the Chief Business Official for Dos Palos-Oro Loma Joint Unified School District, and Director of Fiscal Services for Los Banos Unified School District. Mr. Zearley earned a Bachelor of Science Degree from California State University, Fresno, and is a Certified Chief Business Official through the California Association of School Business Officials (CASBO).

Modesto City Schools Employees

Modesto City Schools employs approximately 1,580 full-time equivalent certificated academic professionals as well as approximately 1,207 full-time equivalent classified employees.

The certificated employees of Modesto City Schools have assigned the Modesto Teachers' Association ("MTA") as their exclusive bargaining agent. The classified employees of Modesto City Schools have assigned California School Employees Association Chapter 007 ("CSEA") as their exclusive bargaining agent.

Modesto City Schools employees are represented by bargaining units as summarized in the following table.

MODESTO CITY SCHOOLS
Labor Organizations

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
Modesto Teachers' Association	1,579	June 30, 2020
California School Employees Association Chapter 007	1,617	June 30, 2019

Source: Modesto City Schools.

Modesto City Schools' current contract with MTA expires June 30, 2020, after recent successful negotiations. The Contract with CSEA is set to expire on June 30, 2019 and Modesto City Schools is currently in negotiations with CSEA for a new contract. By law, each current contract remains in effect until a new contract is approved.

Insurance

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverage for property damage, fire and theft, general public liability and worker's compensation as are adequate, customary and comparable with such insurance maintained by similarly situated school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

Charter Schools

The State Legislature enacted the Charter Schools Act of 1992 (Education Code Sections 47600-47663) to permit teachers, parents, students, and community members to establish schools that would operate in accordance with its charter, from most state and district regulations. State education standards apply, and charter schools are required to use the same student assessment instruments. Charter schools are exempt from state and local education rules and regulations, except as specified in the legislation. Charter schools may be approved by school districts, county boards of education, and the State Board of Education.

The District has certain fiscal oversight and other responsibilities with regard to charter schools it approves to operate within its boundaries. However, charter schools receive funding directly from the State, and such funding is not reported in the Modesto City Schools' (or the District's) audited financial statements. The District has authorized two (2) charter schools to operate within its boundaries, as follows: Connecting Waters Charter School – Central Valley ("Connecting Waters CV"), and Aspire University Charter School ("Aspire" and together with Connecting Waters CV, the "Charter Schools"). Connecting Waters CV provides non-classroom based instruction for grades K to 12 and reports a fiscal year 2018-19 enrollment of 321 students. Aspire provides instruction for grades TK-5 and reports a fiscal year 2018-19 enrollment of 355 students.

Modesto City Schools does not have enrollment information regarding County- or State-approved charter schools that may be operating within its boundaries, if any, and makes no representations regarding enrollment therein and any corresponding financial impact on Modesto City Schools.

STATE FUNDING OF EDUCATION

Local Control Funding Formula

On June 27, 2013, the State adopted a new method for funding school districts commonly known as the "Local Control Funding Formula." The Local Control Funding Formula (the "LCFF") will be implemented in stages, beginning in fiscal year 2013-14 and will be fully implemented in fiscal year 2020-21. Prior to adoption of the LCFF, the State used a revenue limit system described below.

State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97"), enacted as a part of the 2013-14 State Budget (defined below) enacted the LCFF beginning in fiscal year 2013-14, which replaced the revenue limit funding system and many categorical programs. See "–Revenue Limit Funding System" below. The LCFF distributes resources to schools through a guaranteed base revenue limit funding grant (the "Base Grant") per unit of ADA. The average Base Grant is $7,643 per unit of ADA, which is $2,375 more than the average revenue limit. Additional supplemental funding is made available based on the proportion of English language learners, low-income students and foster youth. The Local Control Funding Formula replaces the existing revenue limit funding system and many categorical programs. The District expects revenues to increase as a result of the implementation of the LCFF.

The primary component of AB 97, as amended by SB 91, is the implementation of the LCFF, which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations will be provided on the basis of target base funding grants (a "Base Grant") per unit of average daily attendance ("ADA") assigned to each of four grade spans. Full implementation of the LCFF is expected to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to such district's proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

Initially, the Base Grants per unit of ADA for each grade span were as follows: (i) $6,845 for grades K-3; (ii) $6,947 for grades 4-6; (iii) $7,154 for grades 7-8; and (iv) $8,289 for grades 9-12. Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants are to be adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this class size reduction goal in proportion to the growth in their funding over the implementation period. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

School districts that serve students of limited English proficiency ("EL" students), students from low income families that are eligible for free or reduced priced meals ("LI" students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI (foster youth automatically meet the eligibility requirements for free or reduced priced meals ("FRPM") and are not discussed separately herein). A supplemental grant add-on (each, a "Supplemental Grant") is authorized for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such districts' percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a "Concentration Grant") equal to 50% of the applicable Base Grant multiplied by the percentage of such district's unduplicated EL/LI student enrollment in excess of the 55% threshold.

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The following table sets forth the ADA by grade span, enrollment, the percentage of EL/LI enrollment, and the percentage of FRPM enrollment for fiscal years 2014-15 through 2017-18 with budgeted or projected ADA and Enrollment for fiscal years 2018-19 through 2020-21.

ADA, ENROLLMENT, EL/LI ENROLLMENT, AND FRPM ENROLLMENT
Actual for Fiscal Years 2014-15 through 2017-18, Budgeted for Fiscal Year 2018-19
and Projected for Fiscal Years 2019-20 and 2020-21
Modesto City Schools

	ADA				Enrollment				
Fiscal Year	K-3	4-6	7-8	9-12	Total Enrollment	% of EL/LI Elementary Enrollment	% EL/LI High School Enrollment	% of FRPM Elementary Enrollment	% of FRPM High School Enrollment
2014-15	6,730	4,843	2,941	13,648	30,228	87.94%	63.86%	85.23%	59.99%
2015-16	6,577	5,040	2,946	13,773	30,372	87.79	63.90	84.54	60.54
2016-17	6,420	5,145	3,016	13,963	30,718	87.47	63.99	84.08	61.27
2017-18	6,215	5,076	3,096	13,959	30,609	87.62	65.07	85.74	63.34
2018-19[1]	6,105	4,939	3,168	13,883	30,014	87.77	65.78	85.37	63.68
2019-20[2]	5,994	4,827	3,172	13,913	29,814	88.11	66.43	85.37	63.68
2020-21[2]	5,994	4,827	3,172	13,913	29,814	87.96	66.12	85.37	63.68

[1] Budgeted.
[2] Projected.
Source: Modesto City Schools.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF. The District does not qualify for the ERT add-on.

The sum of a school district's adjusted Base, Supplemental and Concentration Grants will be multiplied by such district's P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will yield a district's total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district's share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts.

LCFF and Community-Funded Districts. Certain schools districts, formerly known as "basic aid" districts, and under the LCFF known as "community-funded districts," have allocable local property tax collections that equal or exceed such districts' total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the "basic aid" requirement of $120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for community-funded districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District is <u>not</u> a community–funded district, and does not expect to be so in future fiscal years.

Accountability. The State Board of Education has promulgated regulations regarding the expenditure of supplemental and concentration funding, including a requirement that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such district on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt local control and accountability plans ("LCAPs") disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The State Board of Education has developed and adopted a template LCAP for use by school districts.

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district's LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district's strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to help the district identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts achieve the goals set forth in their LCAPs. The State Board of Education has developed rubrics to assess school district performance and the need for support and intervention.

The State Superintendent of Public Instruction (the "State Superintendent") is further authorized, with the approval of the State Board of Education, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized (i) to modify a district's LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

Revenue Limit Funding System. Prior to the implementation of the LCFF, annual State apportionments of basic and equalization aid to school districts for general purposes were computed up to a revenue limit (described below) per unit of ADA. Generally, such apportionments amounted to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (i.e., unified, high school or elementary). State law also provided for State support of specific school related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

Revenue Sources

The District categorizes its general fund revenues into four sources:

MODESTO CITY ESCHOOLS
District Revenue Sources
Fiscal Years 2015-16 through 2018-19

Percentage of Total District General Fund Revenues

Revenue Source	2015-16	2016-17	2017-18	2018-19(1)
LCFF/Revenue Limit sources	77.3%	76.5%	79.9%	82.0%
Federal revenues	5.7	6.0	6.2	5.6
Other State revenues	14.4	13.0	12.3	11.4
Other local revenues	2.6	4.5	1.6	1.0

(1) Based on 2018-19 Second Interim Budget.
Source: Modesto City Schools.

LCFF / Revenue Limit Sources. State funding under the LCFF consists of Base Grants and supplemental grants as described above. See "STATE FUNDING OF EDUCATION – Local Control Funding Formula" above.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Every Student Succeeds Act and Safe and Drug Free Schools.

Other State Revenues. The District receives some other State revenues. The District receives State aid from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instructional material.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from collection of developer fees, education foundation funding, and other items such as interest earnings, interagency services and other local sources.

State Budget

The District's principal funding formulas and revenue sources are derived from the budget of the State of California. **The following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, the State has not entered into any contractual commitment with the District, the County, Bond Counsel, Disclosure Counsel nor the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, none of the District nor Bond Counsel and Disclosure Counsel assume any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including www.dof.ca.gov, which website is not incorporated herein by reference.**

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State's voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two–thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement also applies to trailer bills that appropriate funds and are identified by the State Legislature "as related to the budget in the budget bill." The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two–thirds vote of the State Legislature is still required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget.

2018-19 State Budget. Governor Brown signed the fiscal year 2018-19 budget for the State (the "2018-19 State Budget") on June 27, 2018 forecasting revenues and transfers for 2018-19 of $141.8 billion and expenditures of $138 billion. For 2017-18, the 2018-19 State Budget includes revenues and transfers of $135.5 billion, an increase of almost $10 billion over the 2017-18 State Budget, and expenditures of $127 billion. The 2018-19 State Budget reflects continued economic expansion and increasing revenues, including record all-time capital gains tax revenues. The Rainy Day Fund is fully funded to $13.9 billion and an additional $200 million is deposited to the newly created Safety Net Reserve Fund. In recognition that the current economic prosperity can't continue indefinitely, the 2018-19 State Budget makes one-time spending commitments rather than on-going programmatic expenditures; primarily for infrastructure, homelessness and mental health. A new funding formula for higher education is adopted that provides increased funding for community college districts that serve low-income students and where students demonstrate certain success. Additionally, the California Online College is created in order to facilitate access to higher education for working adults.

With respect to K-12 education, the 2018-19 State Budget includes total funding of $97.2 billion ($56.1 billion State general fund and $41.1 billion from other funds) with per pupil funding from all sources of $16,352. LCFF funding is increased by $3.7 billion to reach full funding. Additionally, the 2018-19 State Budget provides $1.1 billion in one-time discretionary funds to school districts, charter schools and county offices of education. The 2018-19 State Budget also enacts a new Proposition 98 certification process to ensure annual Proposition 98 certifications.

Significant provisions of the 2018-19 State Budget relating to K-12 education are as follows:

- Career Technical Education—$164 million ongoing Proposition 98 funds to establish a K-12 specific program within the Strong Workforce Program and $150 million ongoing Proposition 98 funds to make permanent the Career Technical Education Inventive Grant Program.

- Low-Performing Student Block Grant—$300 million Proposition 98 funds for local education agencies with students performing at the lowest levels on academic assessments and that do not generate supplemental LCFF funds or special education resources.

- Early Education Expansion Program—$167.2 million Proposition 98 funds for inclusive early education and care for children up to age five in low-income and low access to care areas.

- Teacher Residency Grant Program—$75 million Proposition 98 funds to support one-year intensive, mentored, clinical teacher preparation programs with $50 million for preparing and retaining special education teachers and $25 million for bilingual and STEM teachers.

- Local Solutions Grant Program—$50 million Proposition 98 funds to provide one-time grants to local educational agencies for locally identified solutions for special education teachers.

- Classified School Employee Summer Assistance Program—$50 million Proposition 98 funds to provide state matching funds to classified school employees who defer paychecks to the summer recess period.

- Classified School Employee Professional Development Block Grant Program—$50 million Proposition 98 funds for professional development for classified staff with a priority on the implementation of school safety plans.

- English Language Proficiency Assessment for California—$27.1 million Proposition 98 funds to convert the paper-based ELPAC to a computer-based assessment and to develop an ELPAC assessment specific to students with exceptional needs.

- Charter School Facility Grant Program—$21.1 million one-time and $24.8 million ongoing Proposition 98 funds to reflect increases in programmatic costs.

- Kids Code After-School Program—$15 million Proposition 98 funds to increase opportunities for students in after-school programs to access computer coding education.

- Fire-Related Support—$4.4 million Proposition 98 funds in property tax relief to school districts impacted by the fires in Northern and Southern California in 2017, $25 million Proposition 98 funds through the LCFF and a hold-harmless provision for ADA for three years.

- California-Grown Fresh School Meals Grants—$1 million one-time Proposition 98 funds to encourage the purchase of California-grown food by schools and expand the number of freshly prepared school meals offered that use California-grown ingredients.

- Fiscal Crisis and Management Assistance Team—$972,000 Proposition 98 funds to allow FCMAT to coordinate with county offices of education to offer more proactive and preventive services to fiscally distressed school districts, specifically those with a qualified interim budget status.

Proposed 2019-20 State Budget. On January 10, 2019, Governor Gavin Newsom announced his proposed 2019-20 budget for the State (the "2019-20 Proposed State Budget") with increased revenues and expenditures for 2018-19 over the 2018-19 State Budget. Under the 2019-20 Proposed State Budget, the State will receive revenues and transfers totaling $149.3 billion with expenditures reaching $144 billion in 2018-19. 2019-20 revenues and transfers are predicted to decrease to $147.8 billion with expenses remaining steady at $144 billion. The Proposed 2019-20 State Budget continues prior years' efforts to pay down debts and increase savings. $1.8 billion would be transferred to the Rainy Day Fund in 2019-20 with an additional $4.1 billion transferred in future years to bring the Rainy Day Fund balance to $19.4 billion by 2022-23. The Proposed 2019-20 State Budget commits $4 billion to pay off loans from special funds and transportation accounts, eliminate the deferrals of the June payroll and the fourth quarter PERS payment. A $3 billion supplemental contribution to pay down the State's share of unfunded PERS liabilities and $1.1 billion towards its share of STRS liabilities are also included in the 2019-20 Proposed State Budget.

The 2019-20 Proposed State Budget allocates $80.7 billion in Proposition 98 funds for K-12 schools and community colleges as well as $686 million in settle-up payments from prior years. Total per-pupil funding would reach $16,857 in 2018-19 and $17,160 in 2019-20. LCFF funding reaches $63 billion under the 2019-20 Proposed Budget.

In addition, the 2019-20 Proposed State Budget makes a $3 billion one-time general fund payment to STRS to reduce school districts' pension liabilities and decrease required future contributions. Current assumptions provide that the school district contribution rate to STRS would decrease from 18.13% to 17.1% in 2019-20 and from 19.1% to 18.1% in 2020-21 as a result of such one-time payment.

Significant provisions of the 2019-20 Proposed State Budget pertaining to K-12 education are as follows:

- Full Day Kindergarten— $750 million one-time general funds to improve access to full-day kindergarten.

- Full-day Preschool— $125 million to increase access to subsidized full-day, full-year State preschool for low income four-year olds.

- ADA—A decrease of $388 million Proposition 98 funds in 2018-19 for school districts resulting from a decrease in projected ADA from the 2018-19 State Budget, and a decrease of $187 million Proposition 98 general fund in 2019-20 for school districts resulting from a further projected decline in ADA for 2019-20.

- Local Property Tax Adjustments—A decrease of $283 million Proposition 98 funds for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues, and a decrease of $1.25 billion Prop 98 funds for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes.

- COLA—$187 million Proposition 98 funds to support a 3.46% COLA for categorical programs, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers, and the American Indian Early Childhood Education Program.

- CalWORKs Stages 2 and 3 Child Care—A net increase of $119.4 million non-Proposition 98 general fund in 2019-20 to reflect increases in the number of CalWORKs child care cases.

- Full-Year Implementation of Prior Year State Preschool Slots—$26.8 million Proposition 98 funds to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through the 2018-19 fiscal year.

- County Offices of Education—$9 million Proposition 98 funds to reflect a 3.46-percent COLA adjustment and average daily attendance changes applicable to the LCFF.

- Instructional Quality Commission—$279,000 General Fund on a one-time basis for the Instructional Quality Commission to continue its work on the development of model curriculum and frameworks.

Future Actions. The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions.

The District cannot predict whether the State will encounter budgetary difficulties in the current or future fiscal years. The District also cannot predict the impact future State Budgets will have on District finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the District cannot control.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the operations of the District and the District's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem *tax approved by the voters pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on all property within the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "THE BONDS – Security for Repayment" and "TAX BASE OF THE DISTRICT" herein.*

District Investments

The County Treasurer manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the County Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County's Treasury Pool. See "APPENDIX F –COUNTY INVESTMENT POOL" for more information related to the County Treasury Pool.

Financial Statements of the District

Modesto City Schools' general fund finances the legally authorized activities of the District and the High School District for which restricted funds are not provided. General fund revenues are derived from such sources as State fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Modesto City Schools has not requested its auditor to provide any review or update of such financial statements in connection with their inclusion in this Official Statement. Certain information from Modesto City Schools' financial statements follows. The audited financial statements of Modesto City Schools for the fiscal year ended June 30, 2018 are attached as APPENDIX C hereto. Modesto City Schools has not requested, and its auditors have not provided, any review or update to such audited financial statements. Modesto City Schools' audited financial statements for prior and subsequent fiscal years can be obtained by contacting the District at 426 Locust Street, Modesto, California 95351, telephone (209) 574-1616. Modesto City Schools may impose a charge for copying, mailing and handling.

Modesto City Schools' financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board. See "DISTRICT FINANCIAL INFORMATION – General Fund" for more information regarding the Modesto City Schools' financial statements for recent fiscal years.

Funds used by Modesto City Schools are categorized as follows:

Governmental Funds	**Fiduciary Funds**
General Fund	Trust and Agency Funds
Special Revenue Funds	Proprietary Funds
Interest and Sinking Funds	Internal Service Funds
Capital Project Funds	

The general fund of Modesto City Schools, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the District and the High School District not financed by restricted funds and moneys which are restricted to specific types of programs or purposes. General fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the Associate Superintendent of Business Services and Chief Business Official for the District and audited by independent certified public accountants each year. Modesto City Schools' audited financial statements for the year ending June 30, 2018 are attached as APPENDIX C hereto.

Significant Accounting Policies

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. Vavrinek, Trine, Day & Co., LLP, Fresno, California, serve as independent auditors to Modesto City Schools and their report for the fiscal year ended June 30, 2018, is attached hereto as APPENDIX C. The auditors have not specifically approved the inclusion of such report herewith.

District Budgets

The fiscal year of Modesto City Schools begins on the first day of July of each year and ends on the 30th day of June of the following year. Modesto City Schools adopts a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations, if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, whether the budget includes the expenditures necessary to implement a LCAP, and whether the budget's ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before September 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by September 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than September 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than October 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

A school district whose budget has been disapproved must revise and readopt its budget by October 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final school district budgets and not later than November 8, must approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee. No later than November 8, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved. Until a school district's budget is approved, the school district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

Modesto City Schools is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year.

California Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. Many provisions affect the District's operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the District. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based on then-current projections. The District has received positive certifications on all of its interim reports within the last five years.

General Fund

The table on the following page describes Modesto City School's audited financial results for fiscal years 2014-15, 2015-16, 2016-17, and 2017-18.

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MODESTO CITY SCHOOLS
GENERAL FUND
Statement of Revenues, Expenditures and Change in Fund Balances
for Fiscal Years 2014-15 through 2017-18

	2014-15 Audit	2015-16 Audit	2016-17 Audit	2017-18 Audit
REVENUES				
Revenue Limit/LCFF Sources	$235,344,318	$269,722,775	$286,952,320	$295,401,578
Federal Revenues	21,153,930	19,946,198	22,543,258	22,826,417
Other State Revenues	32,320,265	50,132,794	48,840,811	45,283,927
Other Local Revenues	8,248,003	9,239,928	16,910,135	5,836,488
TOTAL REVENUES	$297,066,516	$349,041,695	$375,246,524	$369,348,410
EXPENDITURES				
Current				
Instruction	$168,706,365	180,965,637	206,352,578	207,346,571
Instruction related activities:				
Supervision of instruction	11,335,496	11,168,270	12,629,416	13,892,911
Instructional library, media and technology	4,666,200	5,197,033	5,319,274	6,268,739
School site administration	21,770,486	23,554,889	24,819,060	26,486,597
Pupil services:				
Home-to-school transportation	2,723,429	7,741,557	7,497,220	8,618,132
Food services	43,433	17,255	20,329	19,281
All other pupil services	17,805,755	19,869,985	21,484,077	25,187,974
Administration:				
Data processing	6,774,304	9,396,418	7,834,361	9,251,914
All other administration	7,651,404	8,245,906	9,070,329	10,145,404
Plant services	31,436,072	32,834,089	39,438,846	36,617,163
Ancillary services	5,789,842	9,790,490	19,680,644	3,902,202
Community services	2,653,286	2,829,647	3,830,583	4,097,542
Other outgo	3,629,646	3,602,363	4,533,697	7,007,849
Enterprise services	9,966,811	7,642,469	6,023,396	305,534
Facility acquisition and construction	369,367	385,788	352,138	8,587,722
Debt Service				
Principal	352,716	381,111	3,787,828	3,941,177
Interest	20,703	16,641	8,900	377,261
TOTAL EXPENDITURES	$295,695,315	$323,639,548	$372,682,676	$372,053,973
Excess (Deficiency) of Revenues Over Expenditures	1,371,201	25,402,147	2,563,848	(2,705,563)
OTHER FINANCING SOURCES (USES):				
Transfers In	344,190	934,923	897,860	1,071,328
Other sources	--	93,101	10,693,864	2,779,950
Transfers Out	(2,486,988)	(15,190,936)	(1,941,473)	(10,435,073)
Net Financing Sources (Uses)	(2,142,798)	(14,162,912)	9,650,251	(6,583,795)
TOTAL OTHER FINANCING SOURCES (USES)				
Net Change in Fund Balances	(771,597)	11,239,235	12,214,099	(9,289,358)
Fund Balance at Beginning of Year	$76,163,177	$75,391,580	$86,630,815	$98,844,914
Fund Balance at End of Year	$75,391,580	$86,630,815	$98,844,914	$89,555,556

Source: Modesto City Schools.

The table on the following page sets forth the budgets as compared to the audited actual results of Modesto City Schools for fiscal years 2014-15 through 2017-18 as well as the adopted budget for fiscal year 2017-18 and the adopted budget and Second Interim Report results for fiscal year 2018-19.

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GENERAL FUND BUDGETING
Fiscal Years 2014-15 through 2018-19

	Adopted Budget 2014-15	Audited Actuals 2014-15	Adopted Budget 2015-16	Audited Actuals 2015-16	Adopted Budget 2016-17	Audited Actuals 2016-17	Adopted Budget 2017-18	Audited Actuals 2017-18	Adopted Budget 2018-19	Second Interim Report 2018-19
REVENUES										
Revenue Limit/LCFF Sources	$231,439,087	$235,344,318	$271,391,151	$269,722,775	$269,045,634	$286,952,320	$294,763,257	$295,401,578	$314,353,131	$315,585,206
Federal	20,393,536	21,153,930	19,166,324	19,946,198	25,582,956	22,543,258	18,568,120	22,826,417	18,513,395	21,385,898
Other State	20,862,606	32,320,265	37,668,902	50,132,794	39,061,861	48,840,811	21,870,814	45,283,927	44,866,928	43,751,068
Other Local	6,054,720	8,248,003	2,206,874	9,239,928	8,074,512	16,910,135	2,371,517	5,836,488	2,604,375	4,119,622
Total Revenues[1]	$278,749,949	$297,066,516	$330,433,251	$349,041,695	$341,764,963	$375,246,524	$337,573,708	$369,348,410	$380,337,829	384,841,794
EXPENDITURES										
Certificated Salaries	143,829,780	142,674,989	148,066,537	148,669,107	150,489,744	154,637,448	159,165,132	167,226,009	167,926,035	166,296,261
Classified Salaries	46,133,699	45,323,079	48,838,727	48,729,832	49,519,965	50,908,922	54,499,798	55,591,944	57,310,981	57,102,151
Employee Benefits	43,163,220	47,596,187	47,086,190	56,542,575	49,136,557	65,364,733	61,876,730	73,294,264	80,220,319	81,005,133
Books and Supplies	9,207,492	17,706,965	15,355,659	21,970,058	24,908,654	34,267,014	17,841,843	20,208,425	18,576,220	21,921,071
Services and Operating Expenses	24,671,401	26,676,044	46,138,609	30,374,287	44,129,918	33,874,724	40,840,705	36,022,057	39,019,858	45,163,571
Other outgo	10,194,244	8,963,509	8,111,786	6,390,716	6,404,473	4,944,408	6,759,207	5,566,292	9,408,808	9,425,002
Capital outlay	186,000	6,381,123	9,257,000	10,565,221	11,774,029	24,888,699	815,000	9,826,544	1,125,000	9,891,725
Debt service – principal	352,716	352,716	352,716	381,111	367,313	3,787,828	3,423,032	3,941,177	--	--
Debt service – interest	20,703	20,703	20,703	16,641	12,656	8,900	--	377,261	--	--
Total Expenditures[1]	$277,759,255	$295,695,315	$323,227,927	$323,639,548	$336,743,309	$372,682,676	$345,221,447	$372,053,973	$373,587,221	$390,804,914
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	990,694	1,371,201	7,205,324	25,402,147	5,021,654	2,563,848	(7,647,739)	(2,705,563)	6,750,608	(5,963,120)
OTHER FINANCING SOURCES (USES)										
Transfers in	980,916	344,190	1,437,296	934,923	1,410,958	897,860	1,270,169	1,071,328	1,626,518	4,076,065
Other sources	--	--	--	93,101	--	10,693,864	--	2,779,950	--	--
Transfer out	(2,047,956)	(2,486,988)	(17,427,242)	(15,190,936)	(19,539,242)	(1,941,473)	(3,004,912)	(10,435,073)	(8,854,563)	(8,854,563)
Net Financing Sources (Uses)	(1,067,040)	(2,142,798)	(15,989,946)	(14,162,912)	(18,128,284)	9,650,251	(1,734,743)	(6,583,795)	(7,228,045)	(4,778,498)
Net Change In Fund Balance	(76,346)	(771,597)	(8,784,622)	11,239,235	(13,106,630)	12,214,099	(9,382,482)	(9,289,358)	(477,437)	(10,741,618)
Fund Balance, July 1	$76,163,177	$76,163,177	$75,391,580	$75,391,580	$86,630,815	$86,630,815	$98,844,914	$98,844,914	$81,759,827	$81,759,827
Fund Balance, June 30	$76,086,831	$75,391,580	$66,606,958	$86,630,815	$73,524,185	$98,844,914	$89,462,432	$89,555,556	$81,282,390	$71,018,209

(1) Due to the consolidation of Fund 17, Special Reserve Non-Capital Outlay Fund, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual revenues and expenditures, however, are not included in the general fund budgets. Additionally, Modesto City Schools records its STRS on behalf of contribution in State revenue and employee benefit expense which were not included in its general fund budgets.

Source: Modesto City Schools.

Retirement System

The information set forth below regarding the District's retirement programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by the District or the Underwriters.

STRS. All full-time certificated employees, as well as certain classified employees, are members of the State Teachers' Retirement System ("STRS"). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. The District is currently required by such statutes to contribute 14.43% of eligible salary expenditures, while participants contribute either 10.25% or 9.205% of their respective salaries depending on their date of hire. The State also contributes to STRS, currently in an amount equal to 6.828% of teacher payroll. The State's contribution reflects a base contribution of 2.017% and a supplemental contribution that will vary from year-to-year based on statutory criteria.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 ("AB 1469") which implemented a new funding strategy for STRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate will increase by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. Teacher contributions will also increase from 8.00% to a total of 10.25% of pay, phased in over the three year period from 2014-15 through 2017-18. The State's total contribution has also increased from approximately 3% in fiscal year 2013-14 to 6.328% of payroll, plus the continued payment of 2.5% of payroll annually for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers' Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the STRS unfunded liability by June 30, 2046. The State Teachers' Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

Pursuant to A.B. 1469, school district's contribution rates will increase over a seven year phase in period in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	18.13
2020	19.10

The District contributed $25,557,388 to STRS for fiscal year 2015-16, $19,520,000 to STRS for fiscal year 2016-17, and $24,065,035 to STRS for fiscal year 2017-18. Such contributions were equal to 100% of the required contributions for the respective years. The District has budgeted a contribution of $39,645,321 to STRS for fiscal year 2018-19, per its Second Interim Report. With the implementation of AB 1469, the District anticipates that its contributions to STRS will increase in future fiscal years as compared to prior fiscal years. The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to STRS in future fiscal years.

PERS. Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. During fiscal year 2017-18, the District is required to contribute to PERS at an actuarially determined rate, which is 18.062% of eligible salary expenditures for fiscal year 2018-19, while participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries and participants enrolled in PERS subsequent to January 1, 2013 contribute at an actuarially determined rate which is currently set at 6.59% of their respective salaries.

On April 19, 2017, the Board of Administration of PERS adopted new contribution rates for school districts. The revised contribution rates are, as were the previous contribution rates, based on certain demographic assumptions adopted by the Board of Administration in February 2014 which took into account longer life spans of public employees from previous assumptions. Such demographic assumptions generally increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and were phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. PERS estimated that the new demographic assumptions would cost public agency employers up to 5% of payroll for miscellaneous employees at the end of the five year phase in period. To the extent, however, that current and future experiences differ from PERS' assumptions, the required employer contributions may vary. The 2017-18 contribution rate also took into account increased payroll over 2016-17, a lowered discount rate (which was approved in December 2016) as well as lower than predicted investment returns in prior years.

The District contributed $6,163,468 to PERS for fiscal year 2015-16, $7,574,722 to PERS for fiscal year 2016-17 and $9,376,720 to PERS for fiscal year 2017-18, which amounts equaled 100% of required contributions to PERS. The District has budgeted $10,038,952 to PERS for fiscal year 2018-19, per its Second Interim Report.

State Pension Trusts. Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: www.calstrs.com; (ii) PERS: www.calpers.ca.gov. However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for PERS and STRS as of July 1, 2015.

FUNDED STATUS
STRS (DEFINED BENEFIT PROGRAM) and PERS
Actuarial Valuation as of July 1, 2017
(Dollar Amounts in Millions) [(1)]

Plan	Accrued Liability	Value of Trust Assets	Unfunded Liability
Public Employees Retirement Fund (PERS)	$84,416	$60,865	($23,551)
State Teachers' Retirement Fund Defined Benefit Program (STRS)	286,950	197,718	(107,261)

(1) Amounts may not add due to rounding.
Source: PERS State & Schools Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.

Unlike PERS, STRS contribution rates for participant employers, employees hired prior to the Implementation Date (defined herein) and the State are set by statute and do not currently vary from year-to-year based on actuarial valuations. As a result of the Reform Act (defined below), the contribution rate for STRS participants hired after the Implementation Date will vary from year-to-year based on actuarial valuations. See "—California Public Employees' Pension Reform Act of 2013" below. In recent years, the combined employer, employee and State contributions to STRS have been significantly less than actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of STRS has increased significantly. AB 1469 is intended to address this unfunded liability. The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make larger contributions to STRS in the future. The District can also provide no assurances that the District's required contributions to PERS will not increase in the future.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employee's Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (currently 12 months for STRS members who retire with 25 years of service), and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

GASB Statement Nos. 67 and 68. On June 25, 2012, GASB approved Statements Nos. 67 and 68 ("Statements") with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

The District's proportionate shares of the net pension liability of STRS and PERS, as of June 30, 2018, are as shown in the following table.

Pension Plan	**Proportionate Share of Net Pension Liability**
STRS	$266,623,151
PERS	100,549,464
Total	**$367,172,615**

Source: Modesto City Schools.

For further information about the District's contributions to STRS and PERS, see Note 13 in Modesto City Schools' audited financial statements for fiscal year ended June 30, 2018 attached hereto as APPENDIX C.

Other Post-Employment Benefits

In June 2004, the Governmental Accounting Standards Board ("GASB") pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions.* The pronouncement required public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. In June 2015, GASB replaced Statement No. 45 with Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which the District implemented in fiscal year 2017-18.

Modesto City Schools' governing board administers the Postemployment Benefits District Plan (the "Plan"). The Plan is a single employer defined benefit plan that is used to provide postemployment benefits other than pensions for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The benefit payment requirements of the Plan members and the Modesto City Schools may be amended by Modesto City Schools, the MTA, the CSEA, and unrepresented groups of employees. The benefit payment is based on projected pay-as-you go financing requirements. At June 30, 2017, the Plan membership consisted of 877 inactive employees or beneficiaries and 2,846 active employees.

During the fiscal years ended June 30, 2017 and June 30, 2018, Modesto City Schools contributed $1,337,062 and $2,750,171, respectively, to the Plan, all of which was used for current premiums. Modesto City Schools has completed an actuarial study of its Plan benefits dated June 30, 2017. Based on that study, Modesto City Schools' total OPEB liability was $74,477,262 as of that date.

The following table shows the changes in the total OPEB liability for the Plan during the fiscal year ended June 30, 2017.

	Total OPEB Liability
Balance at June 30, 2016	$79,289,100
Service Cost	2,935,337
Interest	2,220,549
Changes in Assumptions	(7,217,553)
Benefit payments	(2,750,171)
Net Change in Total OPEB Liability	(4,811,838)
Balance at June 30, 2017	$74,477,262

Source: Modesto City Schools.

For further information about Modesto City Schools' contributions to, and liabilities under, the Plan, see Note 10 in Modesto City Schools' audited financial statements for fiscal year ended June 30, 2018 attached hereto as APPENDIX C.

Certain Existing Obligations

A schedule of the District's changes in long-term debt for the year ended June 30, 2018 is shown below:

	Balance July 1, 2017	**Additions**	**Deductions**	**Balance June 30, 2018**	**Due Within One Year**
General obligation bonds					
Elementary district bonds	$20,780,543	$1,115,305	$2,130,000	$19,765,848[1]	$2,200,000
High school district bonds	83,228,496	4,508,155	7,835,000	79,901,651[1]	8,225,000
Compensated absences - net	981,095	--	167,389	813,706	--
Capital leases	7,366,666	2,779,950	3,941,177	6,205,439	4,049,961
QSCBs	16,420,000	--	--	16,420,000	--
Compensated benefits	662,213	--	--	662,213	--
Teacher retirement incentives	4,800	--	4,800	--	--
Gregori Traffic mitigation[2]	547,970	--	130,803	417,167	10,000
Net OPEB liability[3]	81,578,055	--	4,904,898	76,673,157	--
Total	$211,569,838	$8,403,410	$19,114,067	$200,859,181	$14,484,961

(1) Reflects accreted value of capital appreciation bonds.
(2) A traffic mitigation agreement with the County requires the High School District to pay $855,600 over an unspecified period of time, as payment in full for resolution of the traffic impacts at the Gregori campus. The High School District is required to remit available amounts at the end each fiscal year from its net collection of commercial school impact developer fees.
(3) See "DISTRICT FINANCIAL INFORMATION – Other Post-Employment Benefits" herein.
Source: Modesto City Schools.

General Obligation Bonds

On November 6, 2001, the District received authorization (the "2001 Authorization") from the voters within the District to issue $17,000,000 aggregate principal amount of general obligation bonds. In May 2002, the District issued $16,998,337 initial principal amount of its General Obligation Bonds, Election of 1991, Series A (the "2001 Bonds"). The 2001 Bonds were issued as capital appreciation bonds and mature through May 1, 2027. At June 30, 2018, $7,794,436 nominal amount of the 2001 Bonds were outstanding. No bond authority remains under the 2001 Authorization.

Lease Revenue Bonds

On June 30, 2010, the Modesto City Schools Joint Powers Authority issued its Qualified School Construction Bonds, Series 2010 (the "2010 Bonds") in the aggregate principal amount of $16,420,000. The 2010 Bonds were issued as current interest bonds and mature on June 1, 2027. The 2010 Bonds are secured by rental payments made by the High School District, payable from the general fund and the high school redevelopment fund of Modesto City Schools. The 2010 Bonds are "qualified school construction bonds" under section 54F of the Code, subject to direct interest subsidy payments ("Subsidy Payments") from the U.S. Department of Treasury. However, the Subsidy Payments are subject to reduction (the "Sequestration Reduction") pursuant to the federal Balanced Budget and Emergency Deficit Control Act of 1985, as amended, which currently includes provisions reducing the Subsidy Payments by 6.2% through the end of the current federal fiscal year (September 30, 2019). In the absence of action by the United States Congress, the rate of the Sequestration Reduction is subject to change in the following federal fiscal year. The District cannot predict whether or how subsequent sequestration actions may affect Subsidy Payments currently scheduled for receipt in future federal fiscal years.

Community Facilities District

The High School District is a member of the Schools Infrastructure Financing Authority ("SIFA") and the Salida Area Public Facilities Financing Agency ("SAPFFA"), each of which are joint powers authorities (together, the "JPAs") established with other public agencies for the purpose of financing facilities for its member agencies. At June 30, 2018, SIFA had total liabilities of approximately $21.5 million, principally comprised of approximately $20.1 million in bonds outstanding through its three community facilities districts ("CFDs"), and total assets of approximately $9.2 million. At June 30, 2018, SAPFFA had total liabilities of approximately $21.9 million, principally comprised of approximately $20.1 million in bonds outstanding through its one CFD, and total assets of approximately $4.75 million. The CFD bonds of each JPA are secured by a Mello-Roos special tax calculated in accordance with the rate and method of apportionment for each CFD. The relationships between the High School District and the JPAs are such that they are not component units of Modesto City Schools for financial reporting purposes. The High School District has appointed two members to the governing board of SIFA and one member to the governing board of SAPFFA. *The District is not a party to these arrangements and is not affected by the debt of the JPAs.*

Certificates of Participation

The District has no outstanding certificates of participation.

Lease Purchase Transactions

On March 5, 2019, Modesto City Schools entered into an equipment lease-purchase agreement ("ELPA") with Banc of America Public Capital Corp. for energy-efficient lighting improvements throughout its facilities. Modesto City Schools' lease payments under the ELPA total $442,485 in 2020 and $660,347 in 2021, increasing to approximately $770,000 annually for calendar year 2022 and thereafter. The ELPA is for a 15-year term, subject to annual appropriation each budget year, through February 1, 2034.

Capital Leases

The District has entered into leases for various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The capital leases have minimum annual payments as follows:

Year ending June 30	Lease Payment
2019	$4,318,438
2020	1,908,357
2021	315,381
2022	30,145
Total	$6,572,321
Less: Amount Representing Interest	366,882
Present Value of Minimum Lease Payments	**$6,205,439**

Source: Modesto City Schools.

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CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the California Constitution

Article XIIIA of the California Constitution limits the amount of any *ad valorem* tax on real property, to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

Under Article XIIIB of the California State Constitution state and local government entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriations of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

California Lottery

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery (the "State Lottery"), the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. Modesto City Schools estimates receipt of $5,602,247 for such State Lottery aid in 2018-19, per its Second Interim Report. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted. See "STATE FUNDING OF EDUCATION- State Budget" herein.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 39

On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIIIA, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIIIA has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIIIA of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed $30 per $100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed $60 per $100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed $25 per $100,000 of taxable property. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Article XIIIC and XIIID of the California Constitution

On November 5, 1996, an initiative to amend the California Constitution known as the "Right to Vote on Taxes Act" ("Proposition 218") was approved by a majority of California voters. Proposition 218 added Articles XIIIC and XIIID to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as "general taxes" (defined as those used for general governmental purposes) or "special taxes" (defined as taxes for a specific purpose even if the revenues flow through the local government's general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District's voters, depending upon the Article of the Constitution under which it is passed.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in Rossi v. Brown by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6,1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District’s ability to pursue approval of a general obligation bond or a Mello-Roos Community Facilities District bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

Proposition 98

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual grade kindergarten to 14 (“K-14”) funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, revised certain funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding “test” to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment (“COLA”) for the minimum guarantee would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40%. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State of California) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth ("ADA") and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita general fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

Supplemental Information Concerning Litigation Against the State of California

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al*. The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

Propositions 1A and 22

Proposition 1A (SCA 4) provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate from 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Under Proposition 1A, the State no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A restricts the State's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate the State's authority to temporarily borrow or redirect some city, county, and special district funds or the State's authority to redirect local redevelopment agency revenues. However, Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (1) to use State fuel tax revenues to pay debt service on state transportation bonds; (2) to borrow or change the distribution of state fuel tax revenues; (3) to direct redevelopment agency property taxes to any other local government; (4) to temporarily shift property taxes from cities, counties, and special districts to schools; (5) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to the LAO analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on other programs as a consequence of the passage of Proposition 22 was approximately $1 billion in fiscal year 2010–11, with an estimated immediate fiscal effect equal to approximately 1 % of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, would be an increase in the State's General Fund costs by approximately $1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling $1.7 billion statewide. ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12), which, together with ABx1 26, is referred to herein as the "Dissolution Act." The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a "Successor Agency"). All property tax revenues that would have been allocated to such redevelopment agency will be allocated to the Successor Agency, to be used for the payment of pass-through payments to local taxing entities and to any other "enforceable obligations" (as defined in the Dissolution Act), as well to pay certain administrative costs. The Dissolution Act defines "enforceable obligations" to include bonds, loans, legally requirement payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations. Tax revenues in excess of such amounts, if any, will be distributed to local taxing entities in the same proportions as other tax revenues.

The District can make no representations as to the extent to which its LCFF apportionments may be offset by the future receipt of pass-through tax increment revenues, or any other surplus property tax revenues pursuant to the Dissolution Act.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018. Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $340,000 but less than $408,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $680,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "– Proposition 98" above. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of ADA and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Proposition 55

At the November 8, 2016 general election, the voters in the State approved the Tax Extension of Education and Healthcare Initiative ("Proposition 55") which extends the increase in personal income tax on the high-income taxpayers imposed under Proposition 30 to 2030. Proposition 55 did not extend the sales and use tax increase imposed under Proposition 30 which expired at the end of 2016.

Proposition 51

The Kindergarten through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of $9 billion in general obligation bonds by the State for the new construction and modernization of K-14 facilities. The District makes no representation that it will either pursue or qualify for Proposition 51 State facilities funding.

K-12 School Facilities. Proposition 51 includes $3 billion for the new construction of K-12 facilities and an additional $3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school districts lack sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of $1 billion will be available for the modernization and new construction of charter school ($500 million) and technical education ($500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for state loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, state grants are capped at $3 million for a new facility and $1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

Community College Facilities. Proposition 51 includes $2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the State legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and State Legislature will select among eligible projects as part of the annual state budget process.

Proposition 2

Proposition 2, a legislatively referred Constitutional amendment approved by the voters in November, 2014 ("Proposition 2"), changed the way in which the State pays off existing debts, funds its reserves and draws from those reserves in times of economic slowdowns, as well as requires that reserves be set aside for schools and community colleges under certain circumstances. In addition, as a result of the passage of Proposition 2, new rules for school district reserves were implemented.

Under Proposition 2, the State is required annually to deposit 1.5% of general fund revenues into the Budget Stabilization Account ("BSA"). From fiscal year 2015-16 through 2029-30, under Proposition 2, one half of the amount required to be deposited to the BSA must be applied to the payment of debts for pension and retiree benefits and specified debts to local governments and certain other State accounts. In years when capital gains tax revenues exceed 8% of general fund revenues, a portion of such excess capital gains tax revenue is also required to be applied to the pay down of State debt. Deposits to the BSA are required until the amount on hand in the BSA reaches 10% of general fund revenues. Once the maximum has been reached, the required deposit amount may be applied to other expenditures.

In the event the Governor were to declare a budget emergency, Proposition 2 would permit a smaller deposit to the BSA. A budget emergency may be called if there is a natural disaster such as an earthquake or flood or general fund revenues reach a certain minimum level. Withdrawals from the BSA, under Proposition 2, are permitted upon a majority vote of the legislature only when the Governor has declared a budget emergency. If a budget emergency is called for two straight years in a row, in the second budget emergency year, the entire amount on hand might be withdrawn.

Public School System Stabilization Account. In the event capital gains tax revenues collected by the State in any given fiscal year exceed 8% of general fund revenues, a portion of such excess is required to be deposited into the newly established under Proposition 2 Public School System Stabilization Account (the "PSSSA") which serves as a reserve account for school funding in years when the State budget is smaller.

SB 858 and SB 751. State regulations require school districts to budget a reserve for economic uncertainties. The recommended minimum amounts vary from 1% to 5% of total expenditures and other financing uses, depending on the district's ADA. SB 858, adopted in June 2014, imposed limitations relating to ending fund balances for school districts. Beginning in 2015–16, a school district that proposes to adopt or revise a budget that includes an ending fund balance that is two to three times higher than the state's minimum recommended reserve for economic uncertainties must substantiate the need for the higher balance. SB 751, which was adopted in October 2017 and amended Section 42127.01 of the Education Code, placed certain restrictions on the amount of a school district's ending fund balances if a certain amount of funds is available in the PSSSA. In a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total of general fund revenues appropriated for school districts for that fiscal year, (see "—Proposition 98" above), a school district's adopted or revised budget may not contain an assigned or unassigned ending fund balance higher than 10% of expenditures and other financing uses. A county superintendent could waive the prohibition, pursuant to specified conditions, for up to two consecutive years within a three-year period. SB 751 does not apply to school districts with an ADA of less than 2,501 students and basic aid school districts.

If the cap is triggered, unless exempted, a school district would be required to increase expenditures in order to bring its ending fund balance down to the maximum level. The PSSA appears to be intended to provide a substitute for local reserves in the event of a future economic downturn.

The District is required to maintain available reserves at least equal to 3% of general fund expenditures and other financing uses. "Available reserves" are the unrestricted amounts in the Reserve for Economic Uncertainties and the Unassigned/Unappropriated accounts in the General Fund and Special Reserve Fund for Other Than Capital Outlay Projects. Available reserves are reduced by any negative ending balances in restricted resources in the General Fund. At June 30, 2018, the District had unassigned available reserves of approximately $45,771,677.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 22, 26, 30, 39, 46, and 98 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting the District's revenues or their ability to expend revenues.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") by not later than 270 days following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The District has entered into Continuing Disclosure Agreement for the benefit of the Owners of the Bonds. The Annual Report and each notice of material events will be filed by the District with the Electronic Municipal Markets Access system ("EMMA") of the Municipal Securities Rulemaking Board (the "MSRB"), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below under the caption "APPENDIX D – FORMS OF CONTINUING DISCLOSURE AGREEMENTS." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

In the past five years, the District has complied in all material respects with any previous undertakings with regard to the Rule to provide annual reports and notices of events.

LEGAL MATTERS

The legal opinions of Dannis Woliver Kelley, San Diego, California, Bond Counsel to the District ("Bond Counsel"), attesting to the validity of the Bonds, will be supplied to the original purchasers of the Bonds without charge, form of which is attached hereto as APPENDIX A. Dannis Woliver Kelley is also acting as Disclosure Counsel to the District. Bond Counsel and Disclosure Counsel will receive compensation contingent upon the sale and delivery of the Bonds.

TAX MATTERS

The delivery of the Bonds is subject to delivery of the opinions of Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The delivery of the Bonds is also subject to the delivery of the respective opinion of Bond Counsel, based upon existing provisions of the laws of the State of California, that interest on the Bonds is exempt from personal income taxes of the State of California. The form of Bond Counsel's anticipated opinion respecting the Bonds is included in APPENDIX A. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District made in a certificate (the "Tax Certificate") of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Resolutions subsequent to the issuance of the Bonds. The Tax Certificate contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants could cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance thereof.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service ("IRS" or the "Service") or the State of California with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service or the State of California. The Service has an ongoing program of auditing the tax status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures, the Service is likely to treat the District as the "taxpayer," and the Owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the respective Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Accounting Treatment of Discount and Premium

The initial public offering price of certain of the Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. The tax rules requiring inclusion in income annually by the holder of a debt instrument having original issue discount of the daily portion of original issue discount for each day during a taxable year in which such holder held such debt instrument is inapplicable to the Bonds. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, and will be added to the holder's basis in the Discount Bond, for federal income tax purposes, on the same terms and conditions as those for other interest on the bonds described above under "TAX MATTERS." Such interest is considered to be accrued in accordance with the constant-yield-to-maturity method over the life of a Discount Bond taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum taxable income imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial Owner prior to maturity, the amount realized by such Owner in excess of the basis of such Discount Bond in the hands of such Owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Bonds (the "Premium Bonds"), may be greater than the amount payable on such bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Form of Bond Counsel Opinion. The form of the proposed opinion of Bond Counsel relating to each Series of the Bonds is attached to this Official Statement as Appendix A.

LEGALITY FOR INVESTMENT

Under provisions of the California Financial Code, the Bonds are legal investments for commercial banks in California to the extent that the Bonds, in the informed opinion of the investing bank, are prudent for the investment of funds of depositors. Under provisions of the California Government Code, the Bonds are eligible to secure deposits of public moneys in California.

RATING

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aa2" to the Bonds. Such rating reflects only the view of Moody's an explanation of the significance of such rating may be obtained from Moody's at 7 World Trade Center at 250 Greenwich Street, New York, NY 10007. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Measure D Bonds are being purchased for reoffering to the public by RBC Capital Markets, LLC, as representative (the "Representative") of itself and Piper Jaffray & Co., as co-managing underwriters (together, the "Underwriters") pursuant to a bond purchase agreement between the District and the Representative (the "Measure D Bond Purchase Agreement"). The Underwriters have agreed to purchase the Measure D Bonds at a purchase price of $_________ (consisting of the principal amount of the Measure D Bonds, plus an original issue premium of $_________ and less an underwriters' discount of $_________). The Measure E Bonds are being purchased for reoffering to the public by the Underwriters pursuant to a bond purchase agreement between the District and the Representative (the "Measure E Bond Purchase Agreement" and, together with the Measure D Bond Purchase Agreement, the "Bond Purchase Agreements"). The Underwriters have agreed to purchase the Measure E Bonds at a purchase price of $_________ (consisting of the principal amount of the Measure E Bonds, plus an original issue premium of $_________ and less an underwriters' discount of $_________). The Bond Purchase Agreements provide that all Bonds of a Series would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the respective

Bond Purchase Agreement, the approval of certain legal matters by Bond Counsel and certain other conditions. The Underwriters have represented to the District that the Bonds have been reoffered to the public at the price or yields stated on the inside front cover pages hereof.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices or yields different from the initial public offering prices or yields stated on the inside cover pages. The initial public offering prices or yields may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

NO LITIGATION

No litigation is pending concerning the validity of the Bonds, and the District's certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue the Bonds.

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OTHER INFORMATION

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made such documents and reports for full and complete statements of the contents thereof. Copies of the Resolutions are available upon request from the Modesto City Elementary School District, 426 Locust Street, Modesto, California 95351.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the District.

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

By: ____
Superintendent

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APPENDIX A

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Board of Education
Modesto City Schools
426 Locust Street
Modesto, California 95351

Re: $__________________ Modesto City Elementary School District General Obligation Bonds (Election of 2018 – [Measure D / Measure E]), Series A

Ladies and Gentlemen:

We have acted as bond counsel for the Modesto City Elementary School District, County of Stanislaus, State of California (the "District"), in connection with the issuance by the District of $________ aggregate principal amount of the District's General Obligation Bonds (Election of 2018 – [Measure D / Measure E]), Series A (the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53506), as amended and that certain resolution adopted by the Board of Education of the District on April 15, 2019 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution. Our services as such bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District and the County as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any effect on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. We call attention to the fact that the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors, rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion herein with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding general obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. The Resolution has been duly adopted and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

3. It is further our opinion, based upon the foregoing, that pursuant to section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Resolution and in reliance upon representations and certifications of the District made in the Tax Certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, when the Bonds are delivered to and paid for by the initial purchasers thereof, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California.

We express no opinion with respect to any federal, state, or local tax consequences, under present law or any proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results.

Respectfully submitted,

Dannis Woliver Kelley

APPENDIX B

SELECTED INFORMATION REGARDING THE CITY OF MODESTO AND THE COUNTY OF STANISLAUS

The following information has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The District comprises only a portion of the County of Stanislaus, and the Bonds are only payable from *ad valorem* property taxes levied on property in the District.

The following information concerning the City of Modesto (the "City") and the County of Stanislaus (the "County") is included only for the purpose of supplying general information regarding the area served by the District. The Bonds are not a debt of the City or the County.

Introduction

The District is located in the County. The County, which was incorporated on April 1, 1854, is located in the Central Valley of California, east of the San Francisco Bay Area. The County covers an area of approximately 1,515 square miles. It is the sixteenth most populated county in California, with a population in excess of 555,000. The City of Modesto is the County seat. Education, health services, government and agriculture are major contributors to the County's economy.

Population

The following table shows historical population statistics, from 2014 to 2018, for the cities in the County as well as the County.

POPULATION
CITIES OF STANISLAUS COUNTY
Calendar Years 2014 through 2018

	2014	2015	2016	2017	2018
Ceres	46,317	46,515	46,923	47,755	48,326
Hughson	7,057	7,102	7,190	7,463	7,738
Modesto	207,104	209,296	211,675	214,181	215,692
Newman	10,864	10,932	11,130	11,471	11,801
Oakdale	21,628	21,851	22,259	22,816	23,324
Patterson	21,172	21,604	22,123	22,395	22,679
Riverbank	23,707	23,830	24,154	24,934	25,244
Turlock	71,418	72,454	73,409	74,392	74,730
Waterford	8,801	8,872	8,957	9,074	9,149
Balance of County	111,782	112,449	113,186	115,495	116,941
Incorporated	418,068	422,456	427,820	434,481	438,683
County Total	529,850	534,905	541,006	549,976	555,624

Source: California State Department of Finance, E-4 Population Estimates for Cities, Counties and State, 2011-18, with 2010 Benchmark, May 2018.

Employment

The County, State and United States civilian labor force figures are shown in the following table for the years 2013 through 2018, the most recent annual information available. The County figures are County-wide and may not necessarily reflect employment trends in the District.

STANISLAUS COUNTY, CALIFORNIA, AND UNITED STATES
Labor Force, Employment, and Unemployment[1]

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate[2]
2013				
Stanislaus County	241,000	209,800	31,200	12.9%
California	18,625,000	16,958,400	1,666,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
2014				
Stanislaus County	241,000	214,100	26,900	11.2
California	18,758,400	17,351,300	1,407,100	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
2015				
Stanislaus County	241,600	218,700	22,800	9.5
California	18,896,500	17,724,800	1,171,700	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2016				
Stanislaus County	244,500	223,700	20,800	8.5
California	19,093,700	18,048,800	1,044,800	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
Stanislaus County	243,300	225,100	18,200	7.5
California	19,311,700	18,387,800	923,900	4.8
United States	160,320,000	153,337,000	6,982,000	4.4
2018				
Stanislaus County[3]	244,800	227,200	17,700	7.2
California	19,278,000	18,440,000	838,000	4.3
United States	161,900,000	155,213,000	7,091,000	4.4

(1) Data reflects employment status of individuals by place of residence.
(2) Unemployment rate is based on unrounded data.
(3) 2018 Annual Average not yet available. Labor force statistics are monthly as of February 2019 (estimated).
Source: California State Employment Development Department and U.S. Department of Labor.

Industry

The following table shows the estimated employment by industry group for 2013 through 2017.

COUNTY OF STANISLAUS
EMPLOYMENT BY INDUSTRY
ANNUAL AVERAGES
2013 through 2017 by Class of Work

	2013	2014	2015	2016	2017
Farm Total	14,100	14,100	14,600	14,900	14,300
Mining, logging and construction	7,000	7,500	8,500	9,000	9,300
Manufacturing	20,900	21,200	21,300	21,800	21,300
Wholesale trade	5,900	5,900	5,900	6,100	6,300
Retail trade	21,500	21,800	22,400	22,700	23,300
Transportation, warehousing & utilities	7,100	7,200	7,500	8,200	7,700
Information	900	900	900	1,000	1,000
Finance	5,400	5,300	5,200	5,300	5,300
Professional and business services	13,400	13,800	14,200	14,600	14,800
Educational and health services	28,800	29,800	30,700	31,300	32,200
Leisure and hospitality	15,800	16,900	17,800	18,700	19,200
Other Services	5,000	5,200	5,300	5,400	5,800
Federal Government	800	800	800	800	800
State Government	1,800	1,900	1,900	2,000	2,100
Local Government	22,900	23,400	23,900	24,800	25,400
Total, All Industries	171,100	175,800	181,000	186,400	188,600

Source: California State Employment Development Department, Labor Market Information, March 2017 Benchmark.

Major Employers within the County

The County is host to a diverse mix of major employers representing industries ranging from agriculture and government to manufacturing, wholesale, health services, and education. The following table lists the County's major employers.

COUNTY OF STANISLAUS
2018 MAJOR EMPLOYERS

Employer	Location	Industry
Bartles & Jaymes Co	Modesto	Wineries (mfrs)
Bronco Wine Co	Ceres	Wineries (mfrs)
Community Services Agency	Not Available	Government Offices-County
Conagra Brands Inc	Oakdale	Food Products (whls)
Copperidge Winery	Modesto	Vineyards
Del Monte Foods Inc	Modesto	Food Products & Manufacturers
E & J Gallo Winery	Modesto	Wineries (mfrs)
Ecco Domani Winery	Modesto	Wineries (mfrs)
Emanuel Medical Ctr	Turlock	Hospitals
Foster Farms	Turlock	Poultry Processing Plants (mfrs)
Frito-Lay Inc	Modesto	Potato Chips (whls)
Gallo Vineyards Inc	Modesto	Wineries (mfrs)
Health Services Agency	Modesto	Clinics
Macdonald Group	Modesto	Real Estate
Memorial Medical Ctr	Modesto	Hospitals
Modesto Bee	Modesto	Newspapers (publishers/Mfrs)
Oak Valley Hospital District	Oakdale	Hospitals
Peter Vella Winery	Modesto	Wineries (mfrs)
Stanislaus County Community	Modesto	Government Offices-County
Stanislaus County Welfare Dept	Modesto	County Government-Social/Human Resources
Storer Coachways	Modesto	Buses-Charter & Rental
Temsa	Turlock	Nonclassified Establishments
Turlock Irrigation District	Turlock	Electric Companies
Womens Infants Child Prgm- W I C	Modesto	Health Services
Zabaco Winery	Modesto	Wineries (mfrs)

Source: California Employment Development Department: America's Labor Market Information System (ALMIS) Employer Database, 2019 1st Edition. Employer information provided by Infogroup, Omaha NE, 800/555-5211.

Commercial Activity

The following table shows the taxable transactions in the City and County between 2010 and 2016.

CITY OF MODESTO
Valuation of Taxable Transactions*
Fiscal Years 2010 through 2016

	Retail and Food Services	Total All Outlets
	Taxable Transactions	Taxable Transactions
2010	$1,742,796	$2,356,698
2011	1,848,808	2,535,072
2012	1,952,716	2,614,619
2013	2,037,321	2,726,180
2014	2,095,560	2,754,118
2015	2,153,740	2,706,539
2016	2,205,519	2,753,051

* In thousands.
Source: California Board of Equalization Taxable Sales in California.

COUNTY OF STANISLAUS
Valuation of Taxable Transactions*
Fiscal Years 2010 through 2016

	Retail and Food Services	Total All Outlets
	Taxable Transactions	Taxable Transactions
2010	$4,112,697	$6,098,614
2011	4,394,011	6,662,466
2012	4,709,642	7,178,273
2013	4,998,626	7,639,992
2014	5,226,290	7,903,608
2015	5,433,420	8,172,288
2016	5,667,430	8,671,625

* In thousands.
Source: California Board of Equalization Taxable Sales in California.

Income

Total personal income in the County increased by 41.74% between 2010 and 2017. Per capita personal income in the County grew by 33.29% between 2010 and 2017.

COUNTY OF STANISLAUS
Personal Income
2010-2017
(in thousands)

Year	County of Stanislaus(1)	California(2)	United States(2)
2010	$16,541,939	$1,627,839.0	$12,541,995.0
2011	17,297,182	1,738,413.1	13,315,478.0
2012	18,023,970	1,853,467.2	13,998,383.0
2013	18,616,665	1,885,672.4	14,175,503.0
2014	20,374,984	2,021,640.0	14,983,140.0
2015	21,900,270	2,173,299.7	15,711,634.0
2016	22,360,836	2,259,413.9	16,115,630.0
2017	23,446,103	2,364,129.4	16,820,250.0

(1) All dollar estimates are in thousands of current dollars (not adjusted for inflation). Statistics presented in thousands of dollars do not indicate more precision than statistics presented in millions of dollars.
(2) All dollar estimates are in millions of current dollars (not adjusted for inflation). Calculations are performed on unrounded data.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

COUNTY OF STANISLAUS
***Per Capita* Personal Income(1)**
2010-2017
(in dollars)

Year	County of Stanislaus(2)	California(3)	United States(3)
2010	$32,105	$43,609	$40,545
2011	33,390	46,145	42,727
2012	34,572	48,751	44,582
2013	35,486	49,173	44,826
2014	38,476	52,237	47,025
2015	40,935	55,679	48,940
2016	41,305	57,497	49,831
2017	42,793	59,796	51,640

(1) Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2017 reflect county population estimates available as of March 2018.
(2) All dollar estimates are in thousands of current dollars (not adjusted for inflation). Statistics presented in thousands of dollars do not indicate more precision than statistics presented in millions of dollars.
(3) All dollar estimates are in millions of current dollars (not adjusted for inflation). Calculations are performed on unrounded data.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

APPENDIX C

MODESTO CITY SCHOOLS
AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2018

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

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

MODESTO CITY SCHOOLS

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MODESTO CITY SCHOOLS

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Modesto City Schools
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Modesto City Schools (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Modesto City Schools, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 75, schedule of changes in the District's total OPEB liability and related ratios on page 76, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 77, schedule of the District's proportionate share of the net pension liability on page 78, and the schedule of District contributions on page 79, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Modesto City Schools' basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Modesto City Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Modesto City Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Modesto City Schools' internal control over financial reporting and compliance.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
December 17, 2018

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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, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District (including capital assets), 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 *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Fund Financial Statements include statements for each of the three categories of funds: governmental, proprietary, and fiduciary.

> The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
>
> The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.
>
> The *Fiduciary Funds* are trust and agency funds. Trust funds focus reporting on net position and changes in net position, and agency funds report only a balance sheet and do not have a measurement focus.

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

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results.* Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Position* and the *Statement of Activities*, we present the District's activities as follows:

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

- Experienced a decrease in enrollment of 209 at the K-8 level and an increase of 141 at 9-12 level.
- This was the fourth year of Local Control and Accountability Plan (LCAP) development, adoption and implementation. The LCAP components include increased and improved services to targeted students, parent and public input in development, and alignment with spending, services and goals.
- Receipt of Mandate One-Time Funding, approximately $147 per ADA.
- Multi-Year Collective Bargaining Agreements were settled for 2016-2017 and 2017-2018. The 2016-2017 negotiated cost of living increases were paid in fall of 2017, resulting in prior year pay increases paid within 2017-2018.
- Implementation of one-to-one student devices pilot program at junior high sites.
- Coordinated Early Intervening Services (CEIS) no longer required from IDEA Part B funds.

THE DISTRICT AS A WHOLE

Net Position

The District's net position was $30 million for the fiscal year ended June 30, 2018. Of this amount, $38 million was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

(Amounts in millions)	Governmental Activities		
	2018	2017, as Restated	Change
Assets			
Current and other assets	$ 195	$ 203	$ (8)
Capital assets	369	361	8
Total Assets	564	564	-
Deferred Outflows of Resources	128	75	53
Liabilities			
Current liabilities	41	42	(1)
Long-term liabilities	201	212	(11)
Aggregate net pension liability	367	308	59
Total Liabilities	609	562	47
Deferred Inflows of Resources	53	45	8
Net Position			
Net investment in capital assets	246	233	13
Restricted	38	44	(6)
Unrestricted	(254)	(245)	(9)
Total Net Position	**$ 30**	**$ 32**	**$ (2)**

The $30 million in net position represents the accumulated results of all past years' operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements –decreased by 3.67 percent ($(254) million compared to $(245) million).

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

(Amounts in millions)	Governmental Activities		
	2018	2017	Change
Revenues			
Program revenues:			
Charges for services	$ 7	$ 7	$ -
Operating grants and contributions	90	99	(9)
General revenues:			
Federal and State aid not restricted	246	241	5
Property taxes	76	72	4
Other general revenues	3	1	2
Total Revenues	422	420	2
Expenses			
Instruction	279	268	11
Pupil services	50	42	8
Administration	21	19	2
Plant services	44	41	3
Other	30	29	1
Total Expenses	424	399	25
Change in Net Position	**$ (2)**	**$ 21**	**$ (23)**

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was $424 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $76 million because the cost was paid by those who benefited from the programs ($7 million) or by other governments and organizations who subsidized certain programs with grants and contributions ($90 million). The District paid for the remaining "public benefit" portion of our governmental activities with $246 million in Federal and State funds, and with $3 million in other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	$ 279	$ 268	$ 230	$ 225
Pupil services	50	42	27	20
Administration	21	19	19	17
Plant services	44	41	42	25
All other services	30	29	10	7
Total	**$ 424**	**$ 399**	**$ 328**	**$ 294**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $145 million, which is a decrease of $9 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances	
	June 30, 2018	June 30, 2017
General	$ 89	$ 99
Special Reserve Capital Outlay	28	27
Non-Major Funds	28	28
Total	**$ 145**	**$ 154**

The decrease in the General Fund was due primarily to the $10 million in transfers out. The Special Reserve Capital Outlay Fund increased primarily due to an $8 million transfer in from the General Fund. The Special Revenue Funds reported a decrease of $1 million and the Debt Service Funds reported an increase of $1 million, resulting in the District's non-major governmental funds remaining stable.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. The final amendment to the budget was adopted on June 25, 2018. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the annual report.

The District budgeted a decrease in the General Fund of approximately $24.8 million. Even though revenues and other sources were $0.8 million more than budgeted, expenditures and other uses were approximately $14.8 million less than budgeted, the fund decreased approximately $9.3 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $369 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This represents an increase of $8 million over the prior year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities	
	2018	2017
Land and construction in progress	$ 56	$ 48
Buildings and improvements	301	302
Equipment	12	11
Total	**$ 369**	**$ 361**

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 $201 million in long-term obligations outstanding versus $212 million last year, a decrease of 5.19 percent (Table 6).

Table 6

(Amounts in millions)	Governmental Activities	
	2018	2017, as Restated
General obligation bonds (financed with property taxes)	$ 100	$ 104
Capital leases	6	8
Qualified school construction bonds	16	16
Other postemployment benefits	77	82
Other	2	2
Total	**$ 201**	**$ 212**

The District's Elementary and High School general obligation bond ratings are Standard & Poor's A+, Stable Outlook and Fitch Rating AA-, Stable Outlook. The State limits the amount of general obligation debt that districts can issue to 1.25 percent of the assessed value of all taxable property within the district's boundaries. We present more detailed information about our long-term obligations in the Notes to Financial Statements.

Net Pension Liability (NPL)

As of June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27,* which required the District to recognize its proportionate share of the unfunded pension obligation for CalSTRS and CalPERS. As of June 30, 2018, the District reported Deferred Outflows from pension activities of $125 million, Deferred Inflows from pension activities of $46 million, and a Net Pension Liability of $367 million. We present more detailed information regarding our net pension liability in the Notes to Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018 ARE NOTED BELOW:

The District completed the following significant projects in 2017-2018:

- Culinary Arts Renovation Phase II – Downey High School
- Special Needs Restroom Replacement – Beyer High School
- Metal Building and Bus Drop-off Zone – Beyer High School
- Agricultural Metal Building and Farm – Gregori High School
- Paving Replacement – Corporation Yard
- Floor Remediation and Concrete Polishing – Beyer and Davis High Schools
- Joint Agricultural Facility Improvements – Church Street
- Parking Improvements – Beard, Bret Harte and Garrison Elementary Schools
- Front Parking Lot Replacement – Sonoma Elementary School

The District began the following significant projects in 2017-2018:

- Cafeteria and Portable Classroom Replacement – Burbank Elementary School
- Agricultural Shop Improvements – Davis High School
- Agricultural Shop Improvements – Downey High School
- HVAC Mechanical System Upgrades – Sonoma Elementary School
- Relocatable Classroom Replacement and Additions – Kirschen Elementary School
- Relocatable Classroom Replacement and Additions – Roosevelt Jr. High School
- Relocatable Classroom Replacement and Additions – Downey High School
- Upgrade Cafeteria Walk-In Cooler Boxes – Davis, Downey, and Johansen High Schools
- Repaving – Burbank and Shackelford Elementary Schools
- Repaving – Davis and Downey High Schools
- Greenhouse Addition – Davis, Downey, and Gregori High Schools
- Gymnasium HVAC Upgrade – Beyer, Davis, and Downey High Schools
- Fire Clean-up, Demolition, and Temporary Housing – Bret Harte Elementary School
- Asphalt Seal – Beard, Garrison, Bret Harte, Sonoma, Wright, Gregori

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018-2019 year, the Governing Board and staff continued to improve upon the oversight requirements of the Local Control Funding Formula (LCFF).

The adoption of the District's annual Local Control and Accountability Plan (LCAP) includes implementation of new programs and further expansion of existing programs. Some areas of expansion include Dual Language Academy, Language Institute, Advancement Via Individual Determination (AVID), Remediation & Intervention Services, Mental Health and Support Services. The LCAP also includes the implementation of one-to-one devices at all junior high sites, Intervention Center Teachers added at junior high sites, a Behavioral Support Specialist and additional technology support staff. The District plans to continue increasing and improving services to targeted students by meeting the goals identified through the LCAP process.

The 2018-2019 budget year marks the year of full LCFF implementation, two years ahead of the Governor's original projected schedule. While the impact of full funding results in additional dollars in the current year, the District recognizes that LCFF increases in future years will be limited to cost of living adjustments (COLA). Projections demonstrate that the COLA in future years may not be sufficient to cover the costs of pension reform, minimum wage increases, step and column costs and collective bargaining demands; while absorbing the impacts of declining enrollment and maintaining valuable student programs. The Governing Board and staff will continue to monitor these impacts through multi-year projection and trend analysis.

The District will once again be receiving Mandate One-Time funding in 2018-2019, estimated at $184 per ADA.

The Governing Board voted to place Measures D and E, a $131 million package of school improvement bond measures, on the November 2018 ballot to repair and upgrade our aging elementary and junior high education facilities. If approved by voters, the funding would be used for improving emergency and security systems, improving accessibility for students with disabilities, equipping classrooms with modern learning technology and repairing and updating outdated classrooms, science labs, cafeterias and restrooms.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Tim Zearley, Associate Superintendent, Business Services, at Modesto City Schools District, 426 Locust Street, Modesto, California, 95351, 209-574-1594, or e-mail at Zearley.T@monet.k12.ca.us.

MODESTO CITY SCHOOLS

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 180,201,288
Receivables	11,991,863
Prepaid expenses	1,557,798
Deferred charges-insurance	85,959
Stores inventories	1,095,997
Capital assets not being depreciated	55,611,141
Capital assets being depreciated	485,466,610
Accumulated depreciation	(172,370,155)
Total Assets	563,640,501
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to other postemployment benefits (OPEB) liability	2,826,682
Deferred outflows of resources related to pensions	125,027,871
Total Deferred Outflows of Resources	127,854,553
LIABILITIES	
Accounts payable	28,742,819
Interest payable	78,269
Unearned revenue	4,076,552
Claims liability	7,854,000
Long-term obligations:	
Current portion of long-term obligations other than pensions	14,484,961
Noncurrent portion of long-term obligations other than pensions	186,374,220
Total Long-Term Obligations	200,859,181
Aggregate net pension liability	367,172,615
Total Liabilities	608,783,436
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to other postemployment benefits (OPEB) liability	6,611,036
Deferred inflows of resources related to pensions	45,833,388
Total Deferred Inflows of Resources	52,444,424
NET POSITION	
Net investment in capital assets	245,997,491
Restricted for:	
Debt service	16,995,244
Capital projects	1,404,115
Educational programs	13,221,619
Other activities	6,582,690
Unrestricted	(253,933,965)
Total Net Position	$ 30,267,194

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

MODESTO CITY SCHOOLS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Instruction	$ 227,573,813	$ 804,349	$ 37,749,319	$ (189,020,145)
Instruction-related activities:				
Supervision of instruction	16,912,660	60,783	8,247,850	(8,604,027)
Instructional library, media, and technology	6,492,981	22	389,310	(6,103,649)
School site administration	27,536,316	124,925	1,540,485	(25,870,906)
Pupil services:				
Home-to-school transportation	8,464,452	8,525	3,384,400	(5,071,527)
Food services	15,680,613	1,632,635	12,098,323	(1,949,655)
All other pupil services	26,060,201	44,383	5,788,343	(20,227,475)
Administration:				
Data processing	9,405,921	871	15,745	(9,389,305)
All other administration	11,906,729	100,734	2,270,789	(9,535,206)
Plant services	44,443,678	100,730	2,473,833	(41,869,115)
Ancillary services	4,002,808	-	191,842	(3,810,966)
Community services	8,309,404	52,183	7,254,692	(1,002,529)
Enterprise services	3,140,051	3,134,750	(2,224)	(7,525)
Interest on long-term obligations	7,162,557	-	-	(7,162,557)
Other outgo	7,007,849	461,922	8,418,859	1,872,932
Total Governmental Activities	$ 424,100,408	$ 6,526,812	$ 89,821,566	(327,752,030)
General revenues and subventions:				
Property taxes, levied for general purposes				62,987,479
Property taxes, levied for debt service				10,381,146
Taxes levied for other specific purposes				3,000,981
Federal and State aid not restricted to specific purposes				245,849,460
Interest and investment earnings				781,037
Interagency revenues				44,848
Miscellaneous				2,253,105
Subtotal, General Revenues				325,298,056
Change in Net Position				(2,453,974)
Net Position - Beginning as Restated				32,721,168
Net Position - Ending				$ 30,267,194

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

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MODESTO CITY SCHOOLS

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	$ 104,839,668	$ 30,549,258	$ 28,728,242
Receivables	9,418,625	2,000	2,520,931
Due from other funds	1,664,937	63,232	18,815
Prepaid expenditures	1,013,435	-	163
Stores inventories	863,591	-	232,406
Total Assets	$ 117,800,256	$ 30,614,490	$ 31,500,557
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 24,152,513	$ 2,383,567	$ 1,661,377
Due to other funds	747,954	8,814	1,500,586
Unearned revenue	3,344,233	-	732,319
Total Liabilities	28,244,700	2,392,381	3,894,282
Fund Balances:			
Nonspendable	1,927,026	-	233,069
Restricted	12,975,234	-	24,995,365
Committed	-	-	2,377,841
Assigned	17,662,975	28,222,109	-
Unassigned	56,990,321	-	-
Total Fund Balances	89,555,556	28,222,109	27,606,275
Total Liabilities and Fund Balances	$ 117,800,256	$ 30,614,490	$ 31,500,557

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

Total Governmental Funds
$ 164,117,168
11,941,556
1,746,984
1,013,598
1,095,997
$ 179,915,303
$ 28,197,457
2,257,354
4,076,552
34,531,363
2,160,095
37,970,599
2,377,841
45,885,084
56,990,321
145,383,940
$ 179,915,303

MODESTO CITY SCHOOLS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balance - Governmental Funds		**$ 145,383,940**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 541,077,751	
Accumulated depreciation is	(172,370,155)	
Net Capital Assets		368,707,596
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.		(78,269)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		8,789,635
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis. The balance to amortize is reported on the Statement of Net Position as deferred charges.		85,959
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:		
Pension contributions subsequent to measurement date	33,441,755	
Net change in proportionate share of net pension liability	19,437,639	
Difference between projected and actual earnings on pension plan investments	3,478,323	
Differences between expected and actual experience in the measurement of the total pension liability.	4,588,271	
Changes of assumptions	64,081,883	
Total Deferred Outflows of Resources Related to Pensions		125,027,871

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION, Continued
JUNE 30, 2018

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	$ (32,898,288)	
Difference between projected and actual earnings on pension plan investments	(7,100,917)	
Differences between expected and actual experience in the measurement of the total pension liability.	(4,650,337)	
Changes of assumptions	(1,183,846)	
Total Deferred Inflows of Resources Related to Pensions		$ (45,833,388)
Deferred outflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.		2,826,682
Deferred inflows of resources related to OPEB represent a acquisition of net position in a future period and is not reported in the District's funds. Deferred inflows of resources related to OPEB at year-end consist of OPEB change of assumptions.		(6,611,036)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(367,172,615)
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.		
General obligation bonds	99,667,499	
Compensated absences	813,706	
Capital leases	6,205,439	
Qualified school construction bonds	16,420,000	
Teacher retirement incentive	662,213	
Gregori traffic mitigation settlement	417,167	
Other postemployment benefits (OPEB) liability	76,673,157	
Total Long-Term Obligations		(200,859,181)
Total Net Position - Governmental Activities		**$ 30,267,194**

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, 2018

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds
REVENUES			
Local Control Funding Formula	$ 295,401,578	$ -	$ 3,000,000
Federal sources	22,826,417	-	19,115,092
Other State sources	45,283,927	-	7,015,417
Other local sources	5,836,488	3,243,329	13,794,399
Total Revenues	369,348,410	3,243,329	42,924,908
EXPENDITURES			
Current			
Instruction	207,346,571	-	4,013,379
Instruction-related activities:			
Supervision of instruction	13,892,911	-	2,522,719
Instructional library, media and technology	6,268,739	-	-
School site administration	26,486,597	-	144,421
Pupil services:			
Home-to-school transportation	8,618,132	-	-
Food services	19,281	-	14,925,222
All other pupil services	25,187,974	-	66,402
Administration:			
Data processing	9,251,914	-	-
All other administration	10,145,404	-	1,452,347
Plant services	36,617,163	3,669	3,418,881
Ancillary services	3,902,202	-	-
Community services	4,097,542	-	3,808,996
Other outgo	7,007,849	-	-
Enterprise services	305,534	-	-
Facility acquisition and construction	8,587,722	9,201,377	3,969,073
Debt service			
Principal	3,941,177	-	10,095,803
Interest and other	377,261	150,288	1,001,816
Total Expenditures	372,053,973	9,355,334	45,419,059
Excess (Deficiency) of Revenues Over Expenditures	(2,705,563)	(6,112,005)	(2,494,151)
Other Financing Sources (Uses)			
Transfers in	1,071,328	7,924,070	2,815,972
Other sources	2,779,950	-	-
Transfers out	(10,435,073)	(1,091,143)	(351,042)
Net Financing Sources (Uses)	(6,583,795)	6,832,927	2,464,930
NET CHANGE IN FUND BALANCES	(9,289,358)	720,922	(29,221)
Fund Balance - Beginning	98,844,914	27,501,187	27,635,496
Fund Balance - Ending	$ 89,555,556	$ 28,222,109	$ 27,606,275

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

Total Governmental Funds
$ 298,401,578
41,941,509
52,299,344
22,874,216
415,516,647
211,359,950
16,415,630
6,268,739
26,631,018
8,618,132
14,944,503
25,254,376
9,251,914
11,597,751
40,039,713
3,902,202
7,906,538
7,007,849
305,534
21,758,172
14,036,980
1,529,365
426,828,366
(11,311,719)
11,811,370
2,779,950
(11,877,258)
2,714,062
(8,597,657)
153,981,597
$ 145,383,940

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, 2018

Total Net Change in Fund Balances - Governmental Funds		**$ (8,597,657)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	$ 19,233,369	
Depreciation expense	(11,511,071)	
Net Expense Adjustment		7,722,298
In governmental funds, the entire proceeds from the disposal of capital assets are reported as revenue, however, in the Statement of Activities, only the gain or loss from disposals are reported.		(76,349)
Some of the capital assets acquired year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the Statement of Activities, but rather constitute long-term obligations in the Statement of Net Position.		(2,779,950)
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 $4,800. Vacation earned was less than the amounts paid or used by $167,389.		172,189
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(9,571,766)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year.		1,120,544

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

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, 2018

Payment of costs for insurance on certificates of participation or bonds is an expenditure in the governmental funds, but is recorded as a deferred charge and amortized on the Statement of Net Position over the live of the debt. The amount of insurance amortized during the year was:	$	(9,732)
Payment of principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds		9,965,000
Capital lease obligations		3,941,177
The District entered into a settlement agreement with Stanislaus County regarding traffic mitigation impacts related to the District's construction of Gregori High School in Salida. The settlement agreement is reported as a long-term obligation on the Statement of Net Position but is not recorded in the fund financial statements.		130,803
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.		(5,623,460)
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.		1,152,929
Change in Net Position of Governmental Activities	**$**	**(2,453,974)**

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

PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

		Self Insurance Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$	16,084,120
Receivables		50,307
Due from other funds		665,907
Prepaid expenses		544,200
Total Current Assets		17,344,534
LIABILITIES		
Current Liabilities		
Accounts payable		545,362
Due to other funds		155,537
Claim liabilities		7,854,000
Total Current Liabilities		8,554,899
NET POSITION		
Restricted	$	8,789,635

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

MODESTO CITY SCHOOLS

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Self Insurance Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	$ 12,097,016
OPERATING EXPENSES	
Claims and related costs	7,097,842
Insurance	2,994,166
Payroll costs	398,816
Professional and contract services	692,972
Supplies and materials	80,689
Facility rental	22,797
Total Operating Expenses	11,287,282
Operating Income	809,734
NONOPERATING REVENUES	
Interest income	277,307
Transfers in	65,888
Total Nonoperating Revenues	343,195
Change in Net Position	1,152,929
Total Net Position - Beginning	7,636,706
Total Net Position - Ending	$ 8,789,635

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, 2018

	Self Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from premiums	$ 11,976,409
Cash payments to employees for services	(398,816)
Cash payments for claims and related costs	(10,703,498)
Net Cash Provided by Operating Activities	874,095
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Nonoperating transfers	65,888
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	277,307
Net Increase in Cash and Cash Equivalents	1,217,290
Cash and Cash Equivalents - Beginning	14,866,830
Cash and Cash Equivalents - Ending	$ 16,084,120
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 809,734
Changes in assets and liabilities:	
Receivables	(2,261)
Due from other funds	(118,346)
Accounts payable	9,431
Due to other funds	155,537
Claim liabilities	20,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 874,095

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

MODESTO CITY SCHOOLS

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Scholarship Trusts	Agency Funds
ASSETS		
Deposits and investments	$ 1,301,581	$ 2,900,253
LIABILITIES		
Due to student groups		
Elementary Schools Combined Account	-	394,494
Beyer High School	-	170,336
Davis High School	-	281,200
Downey High School	-	401,843
Enochs High School	-	159,525
Gregori High School	-	226,070
Johansen High School	-	193,606
Modesto High School	-	1,073,179
Total Liabilities	-	2,900,253
NET POSITION-RESTRICTED		
Elementary Schools Combined Account	25,946	-
Beyer High School	22,944	-
Davis High School	181,326	-
Downey High School	66,009	-
Enochs High School	2,000	-
Gregori High School	1,250	-
Johansen High School	15,448	-
Modesto High School	986,658	-
Total Net Position	$ 1,301,581	$ -

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

MODESTO CITY SCHOOLS

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Scholarship Trusts
ADDITIONS	
Private donations and scholarship earnings	
Elementary Schools Combined Account	$ 626
Beyer High School	27,516
Davis High School	4,905
Downey High School	22,041
Enochs High School	1,750
Gregori High School	-
Johansen High School	2,500
Modesto High School	37,109
Total Additions	96,447
DEDUCTIONS	
Scholarships awarded and other expenditures	
Elementary Schools Combined Account	67,931
Beyer High School	14,800
Davis High School	2,456
Downey High School	16,160
Enochs High School	-
Gregori High School	7,250
Johansen High School	1,500
Modesto High School	51,317
Total Deductions	161,414
Change in Net Position	(64,967)
Net Position - Beginning	1,366,548
Net Position - Ending	$ 1,301,581

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Non-Capital Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been consolidated with the General Fund for presentation in these audited financial statements. As a result, the General Fund reflects an increase in fund balance of $7,795,729.

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

Non-Major Governmental Funds

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

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

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

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

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.

Unearned Revenue Unearned 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 unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned 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, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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.

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accounts Payable and Long-Term Obligations

Accounts payable and long-term obligations are reported in the government-wide financial statements. In general, governmental fund accounts payable that are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Debt Issuance Costs

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Debt issuance costs related to prepaid insurance costs are amortized over the life of the debt using the straight-line method. In governmental fund financial statements, debt issuance costs related to prepaid insurance costs are recognized in the current period. The face amount of the debt is reported as other financing sources.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for pension related items and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items and for OPEB related items.

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $38,203,668 of restricted net position.

Interfund Activity

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the Statement of Activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Stanislaus bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental funds	$ 164,117,168
Internal service fund	16,084,120
Subtotal Deposits and Investments, Statement of Net Position	180,201,288
Fiduciary funds	4,201,834
Total Deposits and Investments	$ 184,403,122

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	$ 6,484,765
Cash in revolving	50,500
Investments	177,867,857
Total Deposits and Investments	$ 184,403,122

Policies and Practices

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

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

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool which purchases a combination of shorter term and longer term investments and which also times cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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	$ 171,696,366	$ 171,696,366	$ -	$ -	$ -
Guarantee Investment Contract (GIC)	5,950,377	-	-	-	5,950,377
Local Agency Investment Fund (LAIF)	215,996	215,996	-	-	-
Total	$ 177,862,739	$ 171,912,362	$ -	$ -	$ 5,950,377

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, 2018, $4,038,901 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Guarantee Investment Contract (GIC) of $5,950,377, the District has a custodial credit risk exposure of $5,950,377 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Stanislaus County Treasury Investment Pool and Local Agency Investment Funds are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

		Fair Value Measurements Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
Government Investment Contract (GIC)	$ 5,950,377	$ 5,950,377	$ -	$ -	$ -
County Pool	171,696,366	-	-	-	171,696,366
Local Agency Investment Fund (LAIF)	215,996	-	-	-	215,996
Total	$ 177,862,739	$ 5,950,377	$ -	$ -	$ 171,912,362

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consist of intergovernmental grants, entitlements, and local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Capital Outlay Capital	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Federal Government						
Categorical aid	$ 3,424,242	$ -	$ 1,790,073	$ 5,214,315	$ -	$ 5,214,315
State Government						
State grants and other entitlements	2,258,572	-	556,328	2,814,900	-	2,814,900
Local sources	3,735,811	2,000	174,530	3,912,341	50,307	3,962,648
Total	$ 9,418,625	$ 2,000	$ 2,520,931	$11,941,556	$ 50,307	11,991,863

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets not being depreciated				
Land	$ 19,991,733	$ -	$ -	$ 19,991,733
Construction in progress	28,267,709	17,205,030	9,853,331	35,619,408
Total Capital Assets Not Being Depreciated	48,259,442	17,205,030	9,853,331	55,611,141
Capital Assets being depreciated				
Land improvements	39,062,767	6,307,981	-	45,370,748
Buildings and improvements	415,136,332	3,545,350	905,438	417,776,244
Furniture and equipment	20,683,202	2,028,339	391,923	22,319,618
Total Capital Assets Being Depreciated	474,882,301	11,881,670	1,297,361	485,466,610
Less Accumulated Depreciation				
Land improvements	12,851,823	1,955,493	-	14,807,316
Buildings and improvements	139,761,847	8,315,348	866,985	147,210,210
Furniture and equipment	9,466,426	1,240,230	354,027	10,352,629
Total Accumulated Depreciation	162,080,096	11,511,071	1,221,012	172,370,155
Governmental Activities Capital Assets, Net	$361,061,647	$17,575,629	$ 9,929,680	$368,707,596

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	$ 9,327,031
Instructional library, media, and technology	13,569
School site administration	66,973
Home-to-school transportation	466,591
Food services	615,181
Community services	265,830
All other general administration	199,596
Data processing	130,943
Plant services	425,357
Total Depreciation Expenses, Governmental Activities	$ 11,511,071

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed resulted from one fund owing another. Interfund receivable and payable balances at June 30, 2018, are as follows:

	Interfund Receivables	Interfund Payables
Major Governmental Funds		
General	$ 1,664,937	$ 747,954
Special Reserve Capital Outlay	63,232	8,814
Total Major Governmental Funds	1,728,169	756,768
Non-Major Governmental Funds		
Adult Education	55	-
Child Development	10,960	419,616
Cafeteria	657	1,061,123
Deferred Maintenance	7,143	-
Capital Facilities	-	19,847
Total Non-Major Governmental Funds	18,815	1,500,586
Self Insurance	665,907	155,537
Total All Governmental Funds	$ 2,412,891	$ 2,412,891

The Child Development Non-Major Governmental Fund owes the General Fund for indirect costs.	$ 419,616
The Self Insurance Fund owes the General Fund for payroll adjustments.	52
The Self Insurance Fund owes the General Fund for revenues posted in error to the Self Insurance Fund.	155,269
The Self Insurance Fund owes the General Fund for June vehicle work orders.	216
The Cafeteria Non-Major Governmental Fund owes the General Fund for June vehicle work orders.	3,330
The Cafeteria Non-Major Governmental Fund owes the General Fund for indirect costs.	726,238
The Cafeteria Non-Major Governmental Fund owes the General Fund for miscellaneous transfers.	328,779
The Cafeteria Non-Major Governmental Fund owes the General Fund for use tax from taxable sales and catering.	2,776
The Capital Facilities Non-Major Governmental Fund owes the General Fund for developer fee administration charges.	19,847
The Special Reserve Capital Outlay Fund owes the General Fund for golf cart purchases.	8,814
The General Fund owes the Child Development Non-Major Governmental Fund for CDP preschool slots for special education children.	10,960
The General Fund owes the Cafeteria Non-Major Governmental Fund for catering.	657
The General Fund owes the Special Reserve Capital Outlay Fund for vehicle replacement.	49,976
The General Fund owes the Special Reserve Capital Outlay Fund for equipment replacement.	13,256
The General Fund owes the Self Insurance Fund for 1:1 device transfer.	65,889
The General Fund owes the Self Insurance Fund for annual property and liability transfer.	600,000
The General Fund owes the Adult Education Non-Major Governmental Fund CSEA release time credits.	55
The General Fund owes the Deferred Maintenance Non-Major Governmental Fund for miscellaneous expenditures.	7,143
The General Fund owes the Self Insurance Fund for payroll transfer.	18
Total	$ 2,412,891

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers for the year ended June 30, 2018, consist of the following:

The General Fund transferred to the Debt Service Non-Major Governmental Fund for the annual sinking fund deposit.	$ 400,000
The General Fund transferred to the Special Reserve Capital Outlay Fund for the bus replacement reserve contribution.	450,000
The General Fund transferred to the Special Reserve for Capital Outlay Fund for high school district facility improvements.	2,000,000
The General Fund transferred to the Special Reserve for Capital Outlay Fund for the Wilson cafeteria project.	5,000,000
The General Fund transferred to the Special Reserve Capital Outlay Fund for the bus replacement contribution.	142,690
The General Fund transferred to the Special Reserve Capital Outlay Fund for the White Fleet replacement contribution.	275,000
The General Fund transferred to the Special Reserve Capital Outlay Fund for the Reprographics equipment replacement contribution.	13,255
The General Fund transferred to the Special Reserve Capital Outlay Fund for the annual Downey auditorium replacement contribution.	10,288
The General Fund transferred to the Special Reserve Capital Outlay Fund for the annual Modesto auditorium replacement contribution.	23,431
The General Fund transferred to the Special Reserve Capital Outlay Fund for the annual Johansen auditorium replacement contribution.	9,406
The General Fund transferred to the Self Insurance Fund for 1:1 student device insurance.	65,888
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for routine repair and maintenance.	2,000,000
The General Fund transferred to the Child Development Non-Major Governmental Fund for slot fees for special education students.	45,115
The Capital Facilities Non-Major Governmental Fund transferred to the Debt Service Fund for the annual sinking fund deposit,	2,416
The Capital Facilities Non-Major Governmental Fund transferred to the General Fund for administration fees.	19,847
The Cafeteria Non-Major Governmental Fund transferred to the General Fund for the NSC cost for routine restricted maintenance projects.	328,779
The Special Reserve Capital Outlay Fund transferred to the General Fund for the purchase of replacement buses.	722,702
The Special Reserve Capital Outlay Fund transferred to the Debt Service Non-Major Governmental Fund for the annual sinking fund deposit.	368,441
Total	$ 11,877,258

NOTE 7 - PREPAID EXPENDITURES (EXPENSES)

Prepaid expenditures (expenses) at June 30, 2018, consist of the following:

	Governmental Activities
General vendors - General Fund	$ 1,013,435
General vendors - Non-Major Governmental Funds	163
Dental insurance - Internal Service Fund	544,200
Total Governmental Activities	$ 1,557,798

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consists of the following:

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds	Self Insurance Fund	Total Governmental Activities
Vendor payables	$ 9,899,538	$ 2,383,567	$ 1,090,175	$ 13,373,280	$ 545,362	$ 13,918,642
Salaries and benefits	12,629,025	-	571,202	13,200,227	-	13,200,227
LCFF apportionment	1,623,950	-	-	1,623,950	-	1,623,950
Total	$24,152,513	$ 2,383,567	$ 1,661,377	$ 28,197,457	$ 545,362	$ 28,742,819

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ -	$ 576,494	$ 576,494
State categorical aid	3,344,233	155,825	3,500,058
Total	$ 3,344,233	$ 732,319	$ 4,076,552

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017, as restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds:					
Elementary bonds	$ 20,780,543	$ 1,115,305	$ 2,130,000	$ 19,765,848	$ 2,200,000
High school district bonds	83,228,496	4,508,155	7,835,000	79,901,651	8,225,000
Compensated absences - net	981,095	-	167,389	813,706	-
Capital leases	7,366,666	2,779,950	3,941,177	6,205,439	4,049,961
Qualified school construction bonds	16,420,000	-	-	16,420,000	-
Compensation benefits	662,213	-	-	662,213	-
Teacher retirement incentive	4,800	-	4,800	-	-
Gregori traffic mitigation	547,970	-	130,803	417,167	10,000
Net other postemployment benefits (OPEB) liability	81,578,055	-	4,904,898	76,673,157	-
Total	$211,569,838	$ 8,403,410	$19,114,067	$200,859,181	$14,484,961

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

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate %	Original Issue	Bonds Outstanding July 1, 2017	Interest Accreted	Redeemed	Bonds Outstanding June 30, 2018
Elementary School bonds:							
5/2/02	5/1/27	4.8-5.93	$16,998,337	$ 20,780,543	$1,115,305	$2,130,000	$ 19,765,848
High School bonds:							
5/2/02	5/1/27	3.79-5.95	64,996,180	83,228,496	4,508,155	7,835,000	79,901,651
	Total			$104,009,039	$5,623,460	$9,965,000	$ 99,667,499

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:

Fiscal Year	Final Maturity	Accreted Obligation	Interest to Accrete
2019	$ 2,200,000	$ 2,190,000	$ 10,000
2020	2,280,000	2,144,842	135,158
2021	2,360,000	2,095,648	264,352
2022	2,440,000	2,044,617	395,383
2023	2,525,000	1,994,734	530,266
2024-2027	14,020,000	9,296,007	4,723,993
Total	$ 25,825,000	$ 19,765,848	$ 6,059,152

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:

Fiscal Year	Final Maturity	Accreted Obligation	Interest to Accrete
2019	$ 8,225,000	$ 8,187,599	$ 37,401
2020	8,630,000	8,118,419	511,581
2021	9,060,000	8,045,170	1,014,830
2022	9,660,000	8,094,671	1,565,329
2023	10,245,000	8,093,493	2,151,507
2024-2027	59,440,000	39,362,299	20,077,701
Total	$ 105,260,000	$ 79,901,651	$ 25,358,349

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2018, amounted to $813,706.

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:

	Total
Balance, July 1, 2017	$ 7,366,666
Additions	2,779,950
Payments	3,941,177
Balance, June 30, 2018	$ 6,205,439

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	$ 4,318,438
2020	1,908,357
2021	315,381
2022	30,145
Total	6,572,321
Less: Amount Representing Interest	366,882
Present Value of Minimum Lease Payments	$ 6,205,439

Qualified School Construction Bonds Payable

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

On June 1, 2010, Modesto City Schools issued Qualified School Construction Bonds in the amount of $16,420,000. The proceeds from the Bonds were used to finance improvements to public high schools within the District. A portion of the proceeds were used for the final phase of construction of Joseph A. Gregori High School. The Qualified School Construction Bonds bear an interest rate of 7.00 percent per annum and mature on June 1, 2027. The District is receiving an IRS subsidy rate of 5.57 percent therefore the effective rate to the District is 1.43 percent. The District is required to make annual payments into a trustee escrow account for the benefit of the owners of the bonds. The payments are calculated to generate sufficient revenues to pay principal of and interest on the bonds when due. As of June 30, 2018, the balance in the escrow account is $5,950,377 and is reported in the District's Debt Service Fund.

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, 2018, the obligation was $662,213.

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. The liability was paid in full as of June 30, 2018.

Gregori Traffic Mitigation Settlement

The District entered into a settlement agreement with Stanislaus County as payment in full for the resolution of traffic mitigation impacts related to the construction of Gregori High School in Salida. The Resolution Agreement obligates the District to pay the sum of $855,600 over an unspecified period of time. The obligation amount is solely limited to the amount of commercial school impact developer fees ("Commercial Fees") the Modesto High School District collects and retains pursuant to the authority granted by *Education Code* Section 17620 et seq. and *Government Code* Section 65995 et seq. within its boundaries commencing from the effective date of this Agreement. At the end of each Fiscal Year, the Modesto High School District will account for the amount of Commercial Fees collected for that time period. After deducting a three percent administrative fee from the amount collected and retained, the Modesto High School District will forward said amount to the County by September 15 of the following fiscal year, and deduct that amount from the outstanding balance still due. The County agrees that the County may not accelerate the District's obligation to pay the Fee Amount. The amount paid during the fiscal year ended June 30, 2018, totaled $130,803. The remaining obligation totals $417,167.

Net Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 74,477,262	$ 2,826,682	$ 6,611,036	$ 4,549,369
Medicare Premium Payment (MPP) Program	2,195,895	-	-	(93,060)
Total	$ 76,673,157	$ 2,826,682	$ 6,611,036	$ 4,456,309

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits District Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	877
Active employees	2,846
Total	3,723

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The benefit payment requirements of the Plan members and the District are established and may be amended by the District, the Modesto Teachers Association (MTA), the local California Service Employees Association (CSEA), and unrepresented groups. The benefit payment is based on projected pay-as-you-go financing requirements as determined annually through the agreements with the District, MTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District paid $2,750,171 in benefits.

Total OPEB Liability of the District

The District's total OPEB liability of $74,477,262 was measured as of June 30, 2017, by an actuarial study prepared as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00 percent, average, including inflation
Investment rate of return	3.58 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	5.00 percent for 2017

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2017 valuation were based on the results of an actual experience study for the period July 1, 2016 to June 30, 2017.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	$ 79,289,100
Service cost	2,935,337
Interest	2,220,549
Changes of assumptions	(7,217,553)
Benefit payments	(2,750,171)
Net change in total OPEB liability	(4,811,838)
Balance at June 30, 2017	$ 74,477,262

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

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

Discount Rate	Total OPEB Liability
1% decrease (2.58%)	$ 84,636,741
Current discount rate (3.58%)	74,477,262
1% increase (4.58%)	66,071,236

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (4.0%)	$ 70,997,702
Current healthcare cost trend rate (5.0%)	74,477,262
1% increase (6.0%)	78,241,435

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

For the year ended June 30, 2018, the District recognized OPEB expense of $4,549,369. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 2,826,682	$ -
Changes of assumptions	-	6,611,036
Total	$ 2,826,682	$ 6,611,036

Amounts reported as deferred inflows of resources related to the change of assumptions will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (606,517)
2020	(606,517)
2021	(606,517)
2022	(606,517)
2022	(606,517)
Thereafter	(3,578,451)
Total	$ (6,611,036)

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB)Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

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

At June 30, 2018, the District reported a liability of $2,195,895 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.5220 percent, and 0.4891 percent, resulting in a net increase in the proportionate share of 0.0329 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $(93,060).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 2,431,009
Current discount rate (3.58%)	2,195,895
1% increase (4.58%)	1,967,197

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 1,984,328
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	2,195,895
1% increase (4.7% Part A and 5.1% Part B)	2,405,350

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 50,000	$ -	$ 500	$ 50,500
Stores inventories	863,591	-	232,406	1,095,997
Prepaid expenditures	1,013,435	-	163	1,013,598
Total Nonspendable	1,927,026	-	233,069	2,160,095
Restricted				
Legally restricted programs	12,975,234	-	-	12,975,234
Adult education programs	-	-	127,812	127,812
Capital projects	-	-	1,404,115	1,404,115
Childcare programs	-	-	118,573	118,573
Food services	-	-	6,349,621	6,349,621
Debt service	-	-	16,995,244	16,995,244
Total Restricted	12,975,234	-	24,995,365	37,970,599
Committed				
Adult education programs	-	-	111,535	111,535
Deferred maintenance projects	-	-	2,266,306	2,266,306
Total Committed	-	-	2,377,841	2,377,841
Assigned				
Carryover obligations	1,395,676	-	-	1,395,676
Curriculum delivery reserve fund	7,308,965	-	-	7,308,965
MCS managers retiree benefit reserve	273,980	-	-	273,980
CSEA retiree benefit fund	212,783	-	-	212,783
Capital projects/maintenance	-	28,222,109	-	28,222,109
LCAP supplemental and concentration	8,471,571	-	-	8,471,571
Total Assigned	17,662,975	28,222,109	-	45,885,084
Unassigned				
Reserve for economic uncertainties	11,563,364	-	-	11,563,364
Remaining unassigned	45,426,957	-	-	45,426,957
Total Unassigned	56,990,321	-	-	56,990,321
Total	$ 89,555,556	$ 28,222,109	$ 27,606,275	$ 145,383,940

NOTE 12 - RISK MANAGEMENT

Workers' Compensation

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

Property and Liability

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

Employee Medical Benefits

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

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2017 to June 30, 2018:

	Dental	Workers' Compensation	Property and Liability	Total
Liability Balance, June 30, 2017	$ 122,000	$ 7,054,000	$ 658,000	$ 7,834,000
Claims and changes in estimates	3,140,051	2,364,863	1,240,822	6,745,736
Claims payments	(3,137,051)	(2,539,863)	(1,048,822)	(6,725,736)
Liability Balance, June 30, 2018	$ 125,000	$ 6,879,000	$ 850,000	$ 7,854,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 266,623,151	$ 93,703,822	$ 43,169,511	$ 24,984,384
CalPERS	100,549,464	31,324,049	2,663,877	18,029,137
Total	$ 367,172,615	$ 125,027,871	$ 45,833,388	$ 43,013,521

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $24,065,035.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	$ 266,623,151
State's proportionate share of the net pension liability associated with the District	157,732,004
Total	$ 424,355,155

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.2883 percent and 0.2750 percent, resulting in a net increase in the proportionate share of 0.0133 percent.

For the year ended June 30, 2018, the District recognized pension expense of $24,984,384. In addition, the District recognized pension expense and revenue of $15,877,241 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 24,065,035	$ -
Net change in proportionate share of net pension liability	19,257,737	31,418,257
Difference between projected and actual earnings on pension plan investments	-	7,100,917
Differences between expected and actual experience in the measurement of the total pension liability	985,998	4,650,337
Changes of assumptions	49,395,052	-
Total	$ 93,703,822	$ 43,169,511

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30,	Deferred Inflows of Resources
2019	$ (5,903,256)
2020	4,467,023
2021	644,119
2022	(6,308,803)
Total	$ (7,100,917)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 5,163,077
2020	5,163,077
2021	5,163,077
2022	5,163,078
2023	3,068,312
Thereafter	9,849,572
Total	$ 33,570,193

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 391,487,432
Current discount rate (7.10%)	266,623,151
1% increase (8.10%)	165,287,326

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $9,376,720.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $100,549,464. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.4212 percent and 0.4332 percent, resulting in a net decrease in the proportionate share of 0.0120 percent.

For the year ended June 30, 2018, the District recognized pension expense of $18,029,137. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 9,376,720	$ -
Net change in proportionate share of net pension liability	179,902	1,480,031
Difference between projected and actual earnings on pension plan investments	3,478,323	-
Differences between expected and actual experience in the measurement of the total pension liability	3,602,273	-
Changes of assumptions	14,686,831	1,183,846
Total	$ 31,324,049	$ 2,663,877

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year Ended June 30,	Deferred Outflows of Resources
2019	$ (94,251)
2020	4,013,231
2021	1,464,073
2022	(1,904,730)
Total	$ 3,478,323

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 5,661,001
2020	5,521,075
2021	4,623,053
Total	$ 15,805,129

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 147,940,482
Current discount rate (7.15%)	100,549,464
1% increase (8.15%)	61,234,645

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $12,826,987 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 14 - 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, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

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, 2018, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Projects with remaining commitments in excess of $40,000:		
Burbank café and portable classroom replacement	$ 270,569	August 2018
Replace walk-in boxes - Davis	122,250	August 2018
Replace walk-in boxes - Downey	124,774	August 2018
Replace walk-in boxes - Johansen	101,046	August 2018
Downey agriculture improvements - BP3	168,980	August 2018
Downey greenhouse - BP4	436,473	October 2018
Davis greenhouse - BP4	333,208	October 2018
Gregori greenhouse - BP4	420,007	October 2018
Sonoma mechanical upgrades	497,668	August 2018
Repaving at Burbank	279,264	August 2018
Repaving at Davis	668,819	August 2018
Repaving at Shackelford	782,522	August 2018
Reroofing and HVAC at Lakewood	47,500	August 2018
Reroofing at Reno Ave	121,586	August 2018
Gym HVAC replacement - Beyer	627,346	August 2018
Gym HVAC replacement - Davis	744,097	August 2018
Gym HVAC replacement - Downey	231,241	August 2018
Roosevelt classrooms	1,104,353	August 2018
Downey classrooms	87,409	August 2018
Sitework - Downey - BP3	709,156	August 2018
Compactor containment - Downey - BP4	234,488	October 2018
Compactor containment - Johansen - BP4	85,956	October 2018
Compactor containment - Modesto - BP4	114,365	October 2018
Kirschen classrooms	466,896	August 2018
Prop 39 - Johnson Controls - most school sites	1,847,513	August 2018
Total Estimated Construction Commitments	$ 10,627,486	

Bargaining Units Contributions

The District is committed to providing annual contributions to the Modesto Teachers' Association (MTA), California School Employees Association (CSEA), and MCS Managers, resulting from collective bargaining agreements. The contract agreements establishing these contributions identify that funds are to be used toward reimbursement of medical premium for eligible retirees. Per the negotiated agreements, the contributions are calculated based on contract and subsequent Memorandum of Understanding language.

- MTA - The fixed annual amount of $648,198 is adjusted based on the cost of CalPERS Administration Fees and Share of Premium Fees for MTA retirees.
- CSEA - The fixed annual amount of $139,000 is adjusted based on the cost of CalPERS Administration Fees and Share of Premium Fees for CSEA retirees.
- Managers Group - The annual amount is 0.05 percent of the annual gross management salary (less Superintendent's salary) plus $24,000, which is adjusted based on the cost of CalPERS Administration Fees and Share of Premium Fees for Management retirees.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

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

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

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

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

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements	
Net Position - Beginning	$ 95,940,755
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(63,219,587)
Net Position - Beginning as Restated	$ 32,721,168

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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, 2018

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Local Control Funding Formula	$ 294,763,257	$ 294,976,452	$ 295,401,578	$ 425,126
Federal sources	18,568,120	24,576,468	22,826,417	(1,750,051)
Other State sources	21,870,814	45,583,364	45,283,927	(299,437)
Other local sources	2,371,517	3,070,229	5,836,488	2,766,259
Total Revenues [1]	337,573,708	368,206,513	369,348,410	1,141,897
EXPENDITURES				
Current				
Certificated salaries	159,165,132	167,250,462	167,226,009	24,453
Classified salaries	54,499,798	55,690,856	55,591,944	98,912
Employee benefits	61,876,730	75,577,328	73,294,264	2,283,064
Books and supplies	17,841,843	23,160,030	20,208,425	2,951,605
Services and operating expenditures	40,840,705	40,944,662	36,022,057	4,922,605
Other outgo	6,759,207	4,956,093	5,566,292	(610,199)
Capital outlay	815,000	12,761,932	9,826,544	2,935,388
Debt service - principal	3,423,032	3,423,032	3,941,177	(518,145)
Debt service - interest	-	-	377,261	(377,261)
Total Expenditures [1]	345,221,447	383,764,395	372,053,973	11,710,422
Excess (Deficiency) of Revenues Over Expenditures	(7,647,739)	(15,557,882)	(2,705,563)	12,852,319
Other Financing Sources (Uses)				
Transfers in	1,270,169	1,429,169	1,071,328	(357,841)
Other sources	-	2,779,950	2,779,950	-
Transfers out	(3,004,912)	(13,479,048)	(10,435,073)	3,043,975
Net Financing Sources (Uses)	(1,734,743)	(9,269,929)	(6,583,795)	2,686,134
NET CHANGE IN FUND BALANCES	(9,382,482)	(24,827,811)	(9,289,358)	15,538,453
Fund Balance - Beginning	98,844,914	98,844,914	98,844,914	-
Fund Balance - Ending	$ 89,462,432	$ 74,017,103	$ 89,555,556	$ 15,538,453

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

See accompanying note to required supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service cost	$ 2,935,337
Interest	2,220,549
Changes of assumptions	(7,217,553)
Benefit payments	(2,750,171)
Net change in total OPEB liability	(4,811,838)
Total OPEB liability - beginning	79,289,100
Total OPEB liability - ending	$ 74,477,262
Covered payroll	N/A [1]
District's total OPEB liability as a percentage of covered payroll	N/A [1]

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

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

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.5220%
District's proportionate share of the net OPEB liability	$ 2,195,895
District's covered-employee payroll	N/A [1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A [1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

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

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

See accompanying note to required supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.2883%	0.2750%
District's proportionate share of the net pension liability	$ 266,623,151	$ 222,420,923
State's proportionate share of the net pension liability associated with the District	157,732,004	126,620,264
Total	$ 424,355,155	$ 349,041,187
District's covered - employee payroll	$ 155,167,170	$ 149,835,890
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	171.83%	148.44%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.4212%	0.4332%
District's proportionate share of the net pension liability	$ 100,549,464	$ 85,562,699
District's covered - employee payroll	$ 54,541,489	$ 52,025,559
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	184.35%	164.46%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

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

See accompanying note to required supplementary information.

2016	2015
0.3345%	0.3092%
$ 225,190,926	$ 180,662,657
119,101,175	109,091,913
$ 344,292,101	$ 289,754,570
$ 144,744,707	$ 138,828,800
155.58%	130.13%
74%	77%
0.4334%	0.4282%
$ 63,877,115	$ 48,616,259
$ 47,934,627	$ 45,099,100
133.26%	107.80%
79%	83%

MODESTO CITY SCHOOLS

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	$ 24,065,035	$ 19,520,030
Contributions in relation to the contractually required contribution	24,065,035	19,520,030
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 166,770,859	$ 155,167,170
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 9,376,720	$ 7,574,722
Contributions in relation to the contractually required contribution	9,376,720	7,574,722
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 60,374,219	$ 54,541,489
Contributions as a percentage of covered - employee payroll	15.531%	13.888%

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

See accompanying note to required supplementary information.

2016	2015
$ 16,077,391	$ 12,853,330
16,077,391	12,853,330
$ -	$ -
$ 149,835,890	$ 144,744,707
10.73%	8.88%
$ 6,163,468	$ 5,642,385
6,163,468	5,642,385
$ -	$ -
$ 52,025,559	$ 47,934,627
11.847%	11.771%

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability - MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

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

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

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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, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through California Department of Education:			
Adult Basic Education and ESL	84.002A	14508	$ 38,656
Adult Secondary Education	84.002	13978	7,180
Title I - Part A, Basic	84.010	14329	11,783,828
Title I - Part C, Migrant Education - Regular	84.011	14326	69,736
Title I - Part G, Advanced Placement Fee Program	84.330B	14831	12,362
Title II - Supporting Effective Education	84.367	14341	1,398,398
Title III - English Language Acquisition - LEP	84.365	14346	821,038
Title III - English Language Acquisition - IEP	84.365	15146	61,440
Special Education Cluster			
Special Education - Basic Local Assistance	84.027	13379	6,584,172
Special Education - Local Assistance - Private School	84.027	10115	7,072
Special Education - Preschool Grants	84.173	13430	145,241
Special Education - Preschool Local Entitlement	84.027A	13682	421,725
Special Education - Preschool Staff Development	84.173A	13431	1,206
Special Education - Mental Health Allocation Plan	84.027A	14468	332,172
Special Education - Alternate Dispute Resolution	84.173A	13007	22,052
Subtotal Special Education Cluster			7,513,640
Special Education - Early Intervention Programs	84.181	23761	91,745
Vocational Education - Technology Secondary II	84.048	14894	456,260
Total U.S. Department of Education			22,254,283
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Health Care Services:			
CCDF Matching-General Child Development Program	93.596	13609	661,375
Medi-Cal Billing Option	93.778	10013	617,970
Head Start	93.600	10016	3,503,182
Head Start - Training and Technical Assistance	93.600	10016	12,448
Early Head Start	93.600	15291	527,663
Early Head Start - Training and Technical Assistance	93.600	15291	1,380
Total Department of Health and Human Services			5,324,018

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education:			
Child Nutrition: Child and Adult Food Care Program	10.558	13666	$ 452,898
Child Nutrition: Cash in Lieu of Commodities	10.558	13389	23,334
Child Nutrition Cluster:			
National School Lunch	10.555	13391	9,053,820
Especially Needy Breakfast	10.553	13526	2,431,275
Meals Supplements - Snack	10.555	13391	366,118
Seamless Summer	10.559	13004	146,051
Food Distribution - Commodities	10.555	13391	1,035,481
Subtotal Child Nutrition Cluster			13,032,745
Total U.S. Department of Agriculture			13,508,977
Total Expenditures of Federal Awards			$ 41,087,278

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Modesto City School District and Modesto High School District were established in 1871. The Modesto City School District covers an area of approximately 30 square miles. The Modesto City School District operates 22 elementary schools and four junior high schools. The Modesto High School District covers an area of approximately 280 square miles. The Modesto High School District operates seven high schools and an alternative education school. There were no boundary changes implemented during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Amy Elliott Neumann	President	2019
John Walker	Vice President	2019
Chad Brown	Member	2021
Steven Grenbeaux	Member	2019
Adolfo Lopez	Member	2021
Cindy Marks	Member	2021
Dr. Charlene G. West	Member	2021

ADMINISTRATION

Craig Rydquist	Interim Superintendent
Mike Henderson	Acting Deputy Superintendent, Human Resources
Marla Mack	Associate Superintendent, Educational Services
Tim Zearley	Associate Superintendent, Business Services, CBO
Mark Herbst	Assistant Superintendent, SELPA

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,211.10	6,215.30
Fourth through sixth	5,076.81	5,076.30
Seventh and eighth	3,105.78	3,095.51
Ninth through twelfth	14,064.93	13,958.99
Total Regular ADA	28,458.62	28,346.10
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	4.39	4.93
Fourth through sixth	12.75	13.54
Seventh and eighth	9.48	10.17
Ninth through twelfth	39.29	39.66
Total Special Education, Nonpublic, Nonsectarian Schools	65.91	68.30
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.09	0.09
Fourth through sixth	0.02	0.02
Seventh and eighth	0.02	0.02
Ninth through twelfth	0.55	0.56
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.68	0.69
Total ADA	28,525.21	28,415.09

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-1987 Minutes Requirement	2017-2018 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		50,428	180	N/A	Complied
Grade 2		50,428	180	N/A	Complied
Grade 3		50,428	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,004	180	N/A	Complied
Grade 5		54,004	180	N/A	Complied
Grade 6		54,004	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		55,576	180	N/A	Complied
Grade 8		55,576	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,422	180	N/A	Complied
Grade 10		65,422	180	N/A	Complied
Grade 11		65,422	180	N/A	Complied
Grade 12		65,422	180	N/A	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(Adopted Budget) 2019 [1,3]	2018 [3]	2017 [3,4]	2016 [3]
GENERAL FUND				
Revenues	$378,316,586	$369,282,455	$375,199,818	$348,982,672
Other sources and transfers in	2,301,518	4,336,300	16,557,312	1,425,757
Total Revenues	380,618,104	373,618,755	391,757,130	350,408,429
Expenditures	376,115,497	372,053,973	372,682,676	323,639,548
Other uses and transfers out	8,872,276	13,391,507	3,144,397	19,452,211
Total Expenditures and Other Uses	384,987,773	385,445,480	375,827,073	343,091,759
INCREASE/(DECREASE) IN FUND BALANCE	$ (4,369,669)	$ (11,826,725)	$ 15,930,057	$ 7,316,670
ENDING FUND BALANCE	$ 77,390,158	$ 81,759,827	$ 93,586,552	$ 77,656,495
AVAILABLE RESERVES [2]	$ 55,325,128	$ 56,990,321	$ 69,939,480	$ 51,651,626
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	14.4%	14.8%	18.6%	15.1%
LONG-TERM OBLIGATIONS [4]	Not Available	$200,859,181	$211,569,838	$142,286,745
AVERAGE DAILY ATTENDANCE AT P-2	28,510	28,525	28,766	28,506

The General Fund balance has increased by $4,103,332 over the past two years. The fiscal year 2018-2019 budget projects a decrease of $4,369,669 (5.3 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $58,572,436 over the past two years due primarily to the implementation of GASB Statement No.75.

Average daily attendance has increased by 19 over the past two years. A decline of 15 ADA is anticipated during fiscal year 2018-2019.

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1 Budget 2019 is included for analytical purposes only and has not been subjected to audit.

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

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

4 The balance of long-term obligations for the year ended June 30, 2017, has been restated due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

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MODESTO CITY SCHOOLS

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018

Name of Charter School	Included in Audit Report
Aspire Vanguard College Preparatory Academy (Charter No. 1125)	No

See accompanying note to supplementary information.

MODESTO CITY SCHOOLS

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	$ 72,521	$ 1,060,282	$ 6,247,571
Receivables	214,956	526,325	1,639,780
Due from other funds	55	10,960	657
Prepaid expenses	-	-	163
Stores inventories	-	-	232,406
Total Assets	$ 287,532	$ 1,597,567	$ 8,120,577
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 48,185	$ 375,320	$ 428,503
Due to other funds	-	419,616	1,061,123
Unearned revenue	-	684,058	48,261
Total Liabilities	48,185	1,478,994	1,537,887
Fund Balances:			
Nonspendable	-	-	233,069
Restricted	127,812	118,573	6,349,621
Committed	111,535	-	-
Total Fund Balances	239,347	118,573	6,582,690
Total Liabilities and Fund Balances	$ 287,532	$ 1,597,567	$ 8,120,577

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
$ 2,805,226	$ 1,547,398	$ 11,044,867	$ 5,950,377	$ 28,728,242
-	139,870	-	-	2,520,931
7,143	-	-	-	18,815
-	-	-	-	163
-	-	-	-	232,406
$ 2,812,369	$ 1,687,268	$ 11,044,867	$ 5,950,377	$ 31,500,557
$ 546,063	$ 263,306	$ -	$ -	$ 1,661,377
-	19,847	-	-	1,500,586
-	-	-	-	732,319
546,063	283,153	-	-	3,894,282
-	-	-	-	233,069
-	1,404,115	11,044,867	5,950,377	24,995,365
2,266,306	-	-	-	2,377,841
2,266,306	1,404,115	11,044,867	5,950,377	27,606,275
$ 2,812,369	$ 1,687,268	$ 11,044,867	$ 5,950,377	$ 31,500,557

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Local Control Funding Formula	$ -	$ -	$ -
Federal sources	45,836	5,182,280	13,032,745
Other State sources	181,984	5,770,610	909,794
Other local sources	624,543	108,302	1,925,368
Total Revenues	852,363	11,061,192	15,867,907
EXPENDITURES			
Current			
Instruction	756,592	3,256,787	-
Instruction-related activities:			
Supervision of instruction	54,194	2,468,525	-
School site administration	144,421	-	-
Pupil services:			
Food services	-	518,392	14,406,830
All other pupil services	16,057	50,345	-
Administration:			
All other administration	-	709,905	731,652
Plant services	45,011	275,659	564,244
Community services	-	3,808,996	-
Facility acquisition and construction	-	-	250,897
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	1,016,275	11,088,609	15,953,623
Excess (Deficiency) of Revenues Over Expenditures	(163,912)	(27,417)	(85,716)
Other Financing Sources (Uses)			
Transfers in	-	45,115	-
Transfers out	-	-	(328,779)
Net Financing Sources (Uses)	-	45,115	(328,779)
NET CHANGE IN FUND BALANCES	(163,912)	17,698	(414,495)
Fund Balance - Beginning	403,259	100,875	6,997,185
Fund Balance - Ending	$ 239,347	$ 118,573	$ 6,582,690

See accompanying note to supplementary information.

Deferred Maintenance Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund	Total Non-Major Governmental Funds
$ 3,000,000	$ -	$ -	$ -	$ 3,000,000
-	-	-	854,231	19,115,092
-	-	153,029	-	7,015,417
(587)	679,122	10,264,224	193,427	13,794,399
2,999,413	679,122	10,417,253	1,047,658	42,924,908
-	-	-	-	4,013,379
-	-	-	-	2,522,719
-	-	-	-	144,421
-	-	-	-	14,925,222
-	-	-	-	66,402
-	10,790	-	-	1,452,347
2,533,453	514	-	-	3,418,881
-	-	-	-	3,808,996
3,075,329	642,847	-	-	3,969,073
-	130,803	9,965,000	-	10,095,803
-	147,585	-	854,231	1,001,816
5,608,782	932,539	9,965,000	854,231	45,419,059
(2,609,369)	(253,417)	452,253	193,427	(2,494,151)
2,000,000	-	-	770,857	2,815,972
-	(22,263)	-	-	(351,042)
2,000,000	(22,263)	-	770,857	2,464,930
(609,369)	(275,680)	452,253	964,284	(29,221)
2,875,675	1,679,795	10,592,614	4,986,093	27,635,496
$ 2,266,306	$ 1,404,115	$ 11,044,867	$ 5,950,377	$ 27,606,275

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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 amount consists of a QSCB interest payment subsidy received by the District.

	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 41,941,509
Reconciling item:		
Qualified School Construction Bonds Interest Subsidy	Not Applicable	(854,231)
Total Schedule of Expenditures of Federal Awards		$ 41,087,278

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirements as required by *Education Code* Section 46201.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

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INDEPENDENT AUDITOR'S REPORTS

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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

Governing Board
Modesto City Schools
Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Modesto City Schools (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Modesto City Schools' basic financial statements, and have issued our report thereon dated December 17, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Modesto City Schools in a separate letter dated December 17, 2018.

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Fresno, California
December 17, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Modesto City Schools
Modesto, California

Report on Compliance for Each Major Federal Program

We have audited Modesto City Schools' (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Modesto City Schools' major Federal programs for the year ended June 30, 2018. Modesto City Schools' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Modesto City Schools' major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Modesto City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, Modesto City Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co. LLP

Fresno, California
December 17, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Modesto City Schools
Modesto, California

Report on State Compliance

We have audited Modesto City Schools' (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Modesto City Schools' State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Modesto City Schools' State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Modesto City Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Modesto City Schools' compliance with those requirements.

Unmodified Opinion

In our opinion, Modesto City Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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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 Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No (see below)
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No (see below)
Middle or Early College High Schools	No (see below)
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No (see below)
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No (see below)
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No (see below)
CHARTER SCHOOLS	
Attendance	No (see below)
Mode of Instruction	No (see below)
Non Classroom-Based Instruction/Independent Study for Charter Schools	No (see below)
Determination of Funding for Non Classroom-Based Instruction	No (see below)
Annual Instruction Minutes Classroom-Based	No (see below)
Charter School Facility Grant Program	No (see below)

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform procedures related to Middle or Early College High Schools.

The District does not offer an apprenticeship program; therefore, we did not perform procedures related to Apprenticeship: Related and Supplemental Instruction.

The District does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to Independent Study - Course Based.

Additionally, the District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
December 17, 2018

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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MODESTO CITY SCHOOLS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No
Identification of major Federal programs:	

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 1,232,618
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

MODESTO CITY SCHOOLS

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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Governing Board
Modesto City Schools
Modesto, California

In planning and performing our audit of the financial statements of Modesto City Schools (the District) for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following item represents a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 17, 2018, on the government-wide financial statements of the District.

BEYER HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Inventory Reconciliation

Observation

During our audit, we found that the student store advisor does track individual sales and also periodically takes inventory of sale items, however, there is no reconciliation between the sales and the changes in inventory. Without a reconciliation procedure there is no way to determine if items have gone missing or been stolen.

Recommendation

Whenever inventory is taken by the student store advisor, there should be a procedure to reconcile the changes in inventory to the total sales of that respective time frame. In doing so, the advisor can determine if there are any problems with inventory control.

Prohibited Expenditure

Observation

During our audit, we found that the ASB had created an open purchase order for supplies for a Special Education classroom. According to the site, these funds were spent on class projects for the Functional Living classroom. These types of expenditures should be made by the District, not the ASB.

Recommendation

The site should implement a policy that prohibits the purchase of items classified as prohibited expenditures.

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Cash Disbursements

Observation

During our audit, we found that requisitions/reimbursement requests are not dated by the signers. Without a date written by the signor, it is difficult to determine if purchases are approved in advance .

Recommendation

The site should review the cash disbursement procedures outlined in the *ASB Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org. All purchases must be preapproved by a board-designated official, a student organization representative, and the certificated employee who is the student organization advisor. Each approving signature should be dated by the signer. In order to provide proper controls over spending, the site should take the necessary steps to ensure that expenditures are approved prior to the item being purchased.

MODESTO HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Prohibited Expenditures

Observation

During our audit, we found one instance where student body funds were issued to a charity. According to the *ASB Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org, "Donations to nonprofit organizations and students or families in need usually are not allowable because they are considered a gift of public funds, no matter how worthy the cause. ASB funds are legally considered public funds because they are raised through the district's tax identification number and under its nontaxable status."

Recommendation

The Student Body and Clubs should not donate funds to organizations and students or families in need. If the Student Body and Clubs would like to continue to donate funds to nonprofit organizations, a District Board approval must be made. In addition, flyers must be handed out when collecting funds from the Community making them aware that the funds will be donated and will not be used for the well-being of the students. Revenue collected for such an event would need to be separately tracked in the general ledger system and all funds collected must be used for the purpose of the fundraiser. All relevant documentation must be retained for future audit purposes.

Cash Disbursements

Observation

During our audit, we discovered that internal controls over the disbursement process are not consistently adhered to. We noted several instances where other clubs were using the General ASB's purchase order. These purchases were made without pre-approval and there were no purchase orders generated for the specific clubs. The pre-approval process is crucial in that it ensures that expenditures are appropriate and that the ASB and its clubs will not deficit spend their accounts.

California *Education Code* Section 48933(b) states "The funds shall be expended subject to such procedure as may be established by the student body organization subject to the approval of each of the following three persons, which shall be obtained each time before any of the funds may be expended: an employee or official of the school district designated by the governing board, the certificated employee who is the designated adviser of the particular student body organization, and a representative of the particular student body organization."

Recommendation

The District should review the cash disbursement procedures outlined in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org. In order to provide proper controls over spending, the site should take the necessary steps to ensure expenditures are approved prior to the item being purchased and by all required persons.

ROOSEVELT JUNIOR HIGH SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Timely Deposits

Observation

During our audit of cash receipts, we found several instances of deposits not being turned into the bank in a timely manner. Some monies received were held longer than 30 days before being deposited which could lead to potential loss or theft.

Recommendation

The site should prepare deposits weekly, if possible. During weeks with high activity, more than one deposit may be needed to ensure proper safeguards of monies collected. The District should review the procedures outlined in the *Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference* published by the Fiscal Crisis & Management Assistance Team (FCMAT) which is available at www.fcmat.org.

HANSHAW MIDDLE SCHOOL - ASSOCIATED STUDENT BODY (ASB)

Inventory Reconciliation

Observation

During our audit, we found that the student store advisor does track individual sales and also periodically takes inventory of sale items, however, there is no reconciliation between the sales and the changes in inventory. Without a reconciliation procedure there is no way to determine if items have gone missing or been stolen.

Recommendation

Whenever inventory is taken by the student store advisor, there should be a procedure to reconcile the changes in inventory to the total sales of that respective time frame. In doing so, the advisor can determine if there are any problems with inventory control.

Account Balances and Transfers

Observation

During our audit, we discovered club accounts with deficit balances. The General ASB account had a negative balance of $6,885.09 and the Sports account had a negative balance of $7,331.81. The overall general ledger had a net deficit balance of $1,673.05. Site administration is aware of this issue and was attempting to rectify the problem.

Recommendation

The site should not allow negative balances to occur within the student body and/or club accounts unless there is substantial evidence to support administrative awareness and approval of the deficit amount(s) and how and when the deficit account(s) are to be replenished. By providing monthly statements that include activity and balances for each club to the respective advisors, and by ensuring that clubs have sufficient funds before authorizing expenditures, deficits can be avoided.

Sub-Receipt Timeliness

Observation

During our audit, we found that deposits from site advisors and teachers to the ASB bookkeeper are not always made in a timely manner. We noted two instances in separate deposits where funds collected by advisors were held for over 30 days before they were deposited with the bookkeeper.

Recommendation

Teacher and advisors should, at a minimum, make their deposits once a week to the ASB bookkeeper in order to minimize the amount of cash held. During weeks of high cash activity, there may be a need to make more than one deposit. In instances where the cash cannot be immediately deposited with the bookkeeper such as afterschool or sporting activities, the funds should be verified by two adult individuals, placed in a locking cash box and locked in the school safe until the funds can be deposited with the bookkeeper.

Bank Deposits

Observation

The site prepares a deposit form for each bank deposit. The form includes all of the receipt numbers included in the deposit along with their individual amounts and from whom they were received. It lists the total dollar amount of cash and of checks, but it also has a line for adjustments. We found several adjustments that were made to increase or decrease deposit amounts but there was no supporting documentation to explain the reasons for the adjustments.

Recommendation

The site should implement procedures to ensure that supporting documentation is retained for adjustments to deposits. If there is no physical supporting documentation, and explanation should be attached to the deposit form. The bookkeeper should have a second responsible party review and sign off on all adjustments.

Governing Board
Modesto City Schools

We will review the status of the current year comments during our next audit engagement.

Vavrinek, Trine, Day + Co. LLP

Fresno, California
December 17, 2018

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the Modesto City Elementary School District (the "District") in connection with the execution and delivery of $______________ aggregate principal amount of the District's General Obligation Bonds (Election of 2018 – [Measure D / Measure E]), Series A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the Board of Trustees of the District on April 15, 2019 (the "Resolution"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolution.

In consideration of the execution and delivery of the Bonds by the District and the purchase of such Bonds by the Underwriters described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist RBC Capital Markets, LLC, as representative (the "Representative") of itself and Piper Jaffray & Co., as co-managing underwriters (the "Underwriters") in complying with Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"Bondholder" or "Holder" means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

"Dissemination Agent" shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent or Assistant Superintendent, Business Services and Chief Business Official (or otherwise by the District), which Agent has evidenced its acceptance in writing. Initially, and in the absence of the specific designation of a successor or alternate Dissemination Agent, the Dissemination Agent shall be the District.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Event" means any of the events listed in Section 6 of this Disclosure Agreement.

"Material Events Disclosure" means dissemination of a notice of a Material Event as set forth in Section 6.

"MSRB" shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at http://emma.msrb.org/, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. <u>CUSIP Numbers and Final Official Statement</u>. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated April __, 2019 ("Final Official Statement").

SECTION 4. <u>Provision of Annual Reports</u>.

(a) The District shall cause the Dissemination Agent, not later than 270 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the fiscal year ending June 30, 2019, which is due no later than March 31, 2020, to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the District shall send, in a timely manner, a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. <u>Content of Annual Report</u>. The District's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the MSRB as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District's preceding fiscal year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Average daily attendance of the District for the last completed fiscal year;

(ii) Outstanding District indebtedness;

(iii) Tax delinquencies, to the extent the County terminates or discontinues the Teeter Plan within the District and such information is available from the County;

(iv) Assessed value of taxable property in the District;

(v) Top 10 taxpayers in the District; and

(vi) Summary financial information on revenues expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each other document so incorporated by reference.

SECTION 6. Reporting of Significant Events.

(a) The District agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

(ii) Unscheduled draws on any debt service reserves reflecting financial difficulties.

(iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.

(iv) Substitution of or failure to perform by any credit provider.

(v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) Tender Offers;

(vii) Defeasances;

(viii) Rating changes;

(ix) Bankruptcy, insolvency, receivership or similar event of the obligated person; or

(x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District which reflect financial difficulties.

(b) The District shall give, or cause to be given to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten (10) Business Days after the occurrence of the event:

(i) Unless described in paragraph 6(a)(v) hereof, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) Modifications of rights to Bondholders;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) Appointment of a successor or additional Paying Agent or the change of name of a Paying Agent; or

(viii) Incurrence of a financial obligation of the District or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect Bondholders.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Bonds.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions, provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 11. Default. The District shall give notice to each NRMSIR or to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriters and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: _____________ __, 2019

MODESTO CITY ELEMENTARY SCHOOL DISTRICT

By:____
Superintendent

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Modesto City Elementary School District

Name of Issue: $__________ General Obligation Bonds (Election of 2018 – [Measure D / Measure E]), Series A

Date of Issuance: ____________ __, 2019

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated May __, 2019. The Issuer anticipates that the Annual Report will be filed by ___________________.

Dated: __________________________

[ISSUER/DISSEMINATION AGENT]

By:____

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriters takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Paying Agent on behalf thereof) as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository).Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, transfer and exchange of the Bonds.

The principal of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in San Francisco, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least $1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in San Francisco, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.

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APPENDIX F

COUNTY INVESTMENT POOL

The following information concerning the Stanislaus County Investment Pool (the "Investment Pool") has been provided by the Treasurer-Tax Collector of Stanislaus County (the "County"), and has not been confirmed or verified by the District, the Municipal Advisor or the Underwriters. The District, the Municipal Advisor and the Underwriters have not made an independent investigation of the investments in the Investment Pool and have made no assessment of the current County investment policy. The value of the various investments in the Investment Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the Director of Finance, with the consent of the County Board of Supervisors, may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the Investment Pool will not vary significantly from the values described herein. Finally, none of the District, the Municipal Advisor or the Underwriters make any representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date. Additional information regarding the Investment Pool may be obtained from the County at http://www.stancounty.com/tr-tax/treasury.shtm; however, the information presented on such website is not incorporated herein by any reference.

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STANISLAUS COUNTY TREASURY POOL INVESTMENT POLICY

Effective Date: July 1, 2018

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PURPOSE AND SCOPE

The purpose of the Stanislaus County Treasury Pool Investment Policy ("Policy") is to provide guidance of the investment of funds in excess of the current day's necessary expenditure which by California State law ("Law") and local ordinance are entrusted to and delegated to the Stanislaus County Treasurer for investment.

The scope of this policy applies solely to funds deposited with the Stanislaus County Treasurer for operating needs as part of the Stanislaus County Treasury Pool ("Pool") of funds. Local legislative and directive bodies such as the Board of Supervisors, various school boards, district boards and special agency boards which by Law have authority to invest funds entrusted to such bodies outside of the Pool (including but not limited to employee retirement funds and bond proceeds) are not constrained to adhere to this policy for investment of funds outside of the Pool.

OBJECTIVE

The primary objective of the investment of short term operating funds is to maintain the principal of such funds (safety) in investment vehicles which are easily converted to cash (liquidity) while obtaining a competitive market rate of return (yield) for the risk taken at the time of investing.

Safety of principal is of paramount importance. Investments will only be made in securities, which have a very high probability of maintaining the principal invested. Only highly rated or strongly collateralized investments will be made. Diversification by type of investment, issuer and maturity to minimize the risk of loss of principal due to credit deterioration or interest rate volatility will be made. Sales of securities before maturity may be made if at a gain, to avoid an anticipated default of payment by the issuer of interest or principal or if such sale will allow investment in a higher yielding vehicle and any loss upon sale can be more than compensated by additional interest earnings within a six month period. Sale of securities also may be made for efficiency if due to the growth in the size of the portfolio any investment is less than one-fourth of one percent of the total portfolio.

To achieve appropriate liquidity needs the Pool's investments must be in maturity ranges which meet normal, anticipated disbursement requirements of all depositors as can be determined by historical disbursement patterns as well as communicated forecasts by depositors. Unanticipated cash disbursement needs require that investments be easily convertible to cash by maintaining shorter maturities in highly traded securities.

To achieve a competitive market rate of return or yield, individual investment decisions must be made on a competitive basis. Due to the primary need of maintaining the purchasing power and cash availability of depositors' funds, the portfolio's yield will normally be lower than that of higher-risk, longer maturity investment pools. An earnings rate goal for the fund will generally achieve a yield, which is 100 basis points higher than inflation.

INVESTMENT AUTHORITY AND STANDARDS OF CARE

The daily investment of Pool funds has been delegated to the Stanislaus County Treasurer/Tax Collector ("Treasurer") pursuant to Government Code section 27000.1 and 53607. This is an annual delegation given to the Stanislaus County Treasurer/Tax Collector by the Stanislaus County Board of Supervisors each year and can be revoked by the Stanislaus County Board of Supervisors at any time. The Treasurer is responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. All transactions must comply with Law and be in conformity with this Policy. The Treasurer shall have written policies and procedures to insure investment compliance including:

- A listing of authorized financial institutions and broker/dealers. Broker/dealers may include "primary" or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) with a minimum capitalization of $10,000,000 and have at least one major office of operation within the State of California. Broker/dealers must have broker/dealer staff who have at least five years experience in Pool investment transactions with California local government investment officials. Broker/dealers must supply the following:

    1. Financial Industry Regulatory Authority (FINRA)
    2. Proof of California State registration
    3. Verification of review of and willingness to comply with this Policy

- Broker/dealers are prohibited from making political contributions to any candidate for the Board of Supervisors or Treasurer/Tax Collector, which exceed the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board.

- Internal controls as approved and monitored by the Stanislaus County Auditor-Controller in accordance with Law and which address control to avoid or detect collusion, appropriate separation of duties, custodial safekeeping, avoidance of physical delivery of securities, clear delegation of investment authority and responsibilities, written confirmation (acceptable via fax) by Treasurer for investments which mature in more than one year, and an appropriate wire transfer arrangement between a lead banking institution and the third party custodian.

- All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. Financial market security transactions will be executed by delivery versus payment and the securities will be held by a third party custodian.

INVESTMENT AUTHORITY AND STANDARDS OF CARE (Continued)

- To avoid even the appearance of a conflict of interest, all officers and employees involved in the investment process shall refrain from personal business activity which in any way could hinder the proper execution and management of the investment program or impair anyone's ability to make an impartial decision.

- Pursuant to Government Code Sections 27132.1, 27132.2 and 27132.3 Committee members are prohibited from:

  1. Being an employee of an entity which has contributed to the campaign fund of any candidate for local treasurer or legislative body either during membership or three years prior to membership

  2. Raising any money for a candidate for local treasurer or governing board

  3. Securing employment with bond underwriters, bond counsel, security brokerages or dealers, or like financial services while a Committee member or for three years after leaving the Committee.

- A limit of $50 per calendar year is placed on the receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business by any member of the Committee, the County Treasurer and any staff involved in the investment process. Beginning in 2004, an annual certification of compliance as prepared by the Treasurer shall be submitted by Committee members.

- The acceptance of transportation or meals and refreshments received during regularly scheduled conferences (such as the California Association of County Treasurers and Tax Collectors – CACTTC) are not prohibited by this policy.

AUTHORIZED INVESTMENTS

Pursuant to Government Code Section 53601 and 53635, investments will only be made in authorized securities with a maturity date of five (5) years or less from the transaction settlement date. All investments (except in mutual funds) must be in securities which have a positive return if held to maturity. The following instruments are authorized for investment (and other instruments are prohibited):

a) Bonds issued by Stanislaus County or by a department, board agency or authority of Stanislaus County.

b) United States (U.S.) notes, bonds, bills or certificates of indebtedness or those for which the faith and credit of the U.S. are pledged for the payment of principal and interest.

AUTHORIZED INVESTMENTS (Continued)

c) California State registered warrants, treasury notes or bonds

d) California local agency bonds, notes, warrants or other indebtedness and the California State Local Agency Investment Fund (LAIF).

e) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank (FHLB) Board, the Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), issuances or guaranteed instruments, and obligations of U.S. federal agencies or a U.S. government-sponsored enterprise. Investment in Small Business Administration (SBA) notes is prohibited.

f) Bankers' Acceptances (BAs) which are eligible for purchase by the Federal Reserve System and which do not have a maturity date longer than 180 days from the settlement date. At the time of investment, no more than 40% of the Pool may be invested in BAs with a maximum 20% of the Pool in BAs of one commercial bank.

g) Commercial paper (CP) of "prime" quality (rated A-1 by Moody, P-1 by Standard and Poor's Corporation or F-1 by Fitch) of a U.S. corporation having assets in excess of $500,000,000 and a long term debt rating of "A" or higher. The maturity date may not exceed 180 days from the settlement date nor represent more than 10% of the total outstanding CP issuance of the corporation. No more than 15% of the Pool may be invested in CP unless the dollar weighted average maturity is 31 days or less in which case the total invested may be 30% of the Pool. Commercial Paper must be 3(a)3 only, no 144a paper and not be split rated below A-1, P-1 or F-1.

h) Negotiable certificates of deposit (NCDs) issued by a nationally or state chartered bank or state licensed branch of a foreign bank. No more than 30% of the Pool may be invested in NCDs with no more than 5% of the Pool invested in any one bank's NCD.

i) Repurchase agreements (REPOs) with an approved broker/dealer of any security authorized by Government Code section 53601 with a market value of 102% of the agreement and a term of not more than 90 days. Reverse repurchase agreements are prohibited.

AUTHORIZED INVESTMENTS (Continued)

j) Medium Term Notes (MTNs) of U. S. corporations or depository institutions which have maturities of five years or less from the settlement date. The notes must be rated "A" or higher by Standard and Poor's (or other equivalent rating). No more than 30% of the Pool shall be invested in MTNs with no more than 5% of the Pool invested in the MTNs of any one corporation at the time of the investment. All MTNs must be non-callable. No investment shall be made in private placement MTNs or MTNs with split ratings below a Standard and Poor's rating of A- or its equivalent.

k) Diversified management company shares (mutual fund/MF) which invest in instruments authorized in Government Code section 53601 (a) to (l) inclusive. The company must have the highest rating by two of three recognized rating agencies or have an investment adviser registered with the Securities and Exchange Commission (SEC) with at least five years of experience investing in securities authorized by Government Code section 53601 (a) to (m) inclusive and with assets under management in excess of $500,000,000. At the time of MF shares purchase no more than 15% of the Pool may be invested in these securities with no more than 5% in any one mutual fund.

l) Certificates of Deposit (CDs) in banks which are 110% collateralized by the institution with government securities. At the time of investment, no more than 5% of the Pool may be invested in any one bank's CDs.

NON-AUTHORIZED INVESTMENTS

a) Investment in securities which are commonly referred to as "derivatives" such as interest only strips on mortgage pools, options, puts, inverse floaters or other speculative investments are prohibited.

REPORTING REQUIREMENTS

A monthly report shall be prepared by the Treasurer no later than 30 days following the end of the monthly reporting period. A copy of the report will be forwarded to Committee members, and the Treasurer will maintain a file of their acceptance. The report will be forwarded to the Board of Supervisors for final review and acceptance. The report will be provided through the web site.

The monthly report shall include:

- A concise management summary of Pool activity and position rendered with statements of review and reconciliation with custodial records, source of market valuation, ability to meet next six (6) month's expenditures and for compliance with this Policy by the Treasurer and Board of Supervisors' approval.

- A detailed listing of securities held at the end of the month grouped by investment type (e.g. BA, CD, CP) and delineated as follows:

  - Issuing agency (e.g. U.S. Government, FNMA, GE Capital)
  - Date purchased (settlement date)
  - Date of maturity
  - Par Value
  - Book Value
  - Market value
  - Stated rate (coupon rate)
  - Yield-to-Maturity
  - Days-to-Maturity

- A detailed listing of security transactions during the report period (purchases, sales and maturities) grouped by investment type and to include the following:

  - Date of transaction
  - Issuing agency (e.g. U.S. Government, FNMA, GE Capital)
  - Purchase, Deposit, Sale, Maturity or Withdrawal Amount
  - Stated rate (coupon rate)
  - A summary of Pool position by investment type dollar amount, percentage of total portfolio and average weighted maturity showing compliance with Policy limitations.
  - A summary by investment type of purchases and sales/maturities and ending position.

ANNUAL AUDIT

An annual audit shall be conducted to insure that investment transactions are in compliance with Law and this Policy. The audit shall be supervised by a Certified Public Accountant (CPA) who shall render an opinion to the Committee. The opinion shall be forwarded to the Board of Supervisors for review and acceptance. The selection of the CPA shall be by the Stanislaus County Auditor-Controller as a Committee member.

INVESTMENT POOL EXPENSES

The expenses of administration of the Pool shall be borne by all depositors by the utilization of investment earnings to offset the costs. Total costs shall not exceed 25 basis points (0.25%) of the average Pool daily balance for any fiscal year. Costs include normal Treasury costs for staff and support services in the areas of handling, safekeeping and depositing monies received; investment transactions and custodial safekeeping of securities; bank services; accounting, reporting and auditing of deposit and investment transactions; informational and educational materials and services related to financial markets, investments and individual business and governmental entities' financial condition; and other duties and costs related to the management of Pool funds. Appropriate costs normally charged as "Treasury/org 30400" on the Stanislaus County Auditor-Controller's records will incorporate and clearly define the Pool expenses.

AGENCIES' VOLUNTARY DEPOSITING AND WITHDRAWAL

"Voluntary" agency depositing is discouraged due to the potential volatility of depositing and withdrawal, which may occur. The Pool is designed as an operating fund for Stanislaus County and entities, which are required to deposit by Law or have historically utilized the efficiencies of the Treasury by Law.

Only those agencies which use the Treasury for operational purposes due to their ties to Stanislaus County departmental functions, area schools or special public districts and are either required or allowed to deposit funds in the County Treasury are allowed to be participants in the Pool.

Withdrawals from the Pool for investment purposes outside of the Pool by non-County member agencies may be done if the following conditions are met:

- The agency has provided the Treasurer with legal authority that it can invest funds outside of the Pool
- The agency shows evidence of maintaining a minimum cash balance of one month's normal payroll expenditures for 30 days prior to the date of request as verified by the Stanislaus County Auditor-Controller
- The agency withdraws a minimum of $1,000,000 and will continue to maintain its Pool cash balance of one month's normal payroll costs
- The agency makes its request in writing signed by an authorized representative of the agency's board on a form provided by the Treasurer
- The agency must allow two business days for each five million dollar or increment thereof which is being withdrawn (e.g. a $15,000,000 withdrawal would require that the Treasurer receive a completed request form with appropriate signatures and verifications 6 business days before the funds are released)

If the withdrawing agency's Pool cash balance falls below one month's payroll expense, the Treasurer may demand that funds be retrieved to restore the Pool cash balance to such level.

Reinvestment of funds from external investments (e.g. California State Local Agency Investment Fund) may be done without the above procedures. The Treasurer's Office may verify telephonically with the Auditor's Office that the agency has one month's payroll expenditures as cash in the Pool exclusive of the redemption of the external investment funds.

AGENCIES' VOLUNTARY DEPOSITING AND WITHDRAWAL (Continued)

The agency's request may be denied or delayed if multiple requests are received or abnormally high disbursements are experienced by the Pool resulting in unusual demands for cash outflow. Any agency request, which results in an immediate liquidation of investment securities at a loss, will only be honored after the agency has acknowledged and approved to bear the loss incurred. No request can be honored which will adversely affect the stability and predictability of the investments in the Pool.

INVESTMENT EARNINGS APPORTIONMENT AND RATE

Beginning July 1, 2001, the Pool's investment earnings shall be apportioned by the following method. The investment earnings which have been received in cash and accumulated from the beginning to the end of each calendar quarter shall be apportioned to each cash balance account maintained within the Pool. The apportionment of earnings to any particular cash balance account will be in direct proportion of that account's average daily cash balance to the entire Pool's average daily cash balance for that same quarter. For example, if the earnings received for the quarter ending March 31 were $5,000,000, and if the County General Fund's average daily cash balance were $10,000,000 and if the entire Pool's average daily cash balance were $500,000,000, then the amount of earnings to apportion to the County's General Fund would be $100,000 (calculated as $5,000,000 x $10,000,000/$500,000,000). Cash balance accounts shall be maintained in and earnings apportionment shall be performed by the Stanislaus County Auditor-Controller's Office. The cash earnings apportionment rate is calculated as the investment earnings received in cash for the quarter divided by the average daily cash balance for the entire Pool times four (4). In the above example, the cash earnings apportionment rate is 4% ($5,000,000 / $500,000,000 x 4).

EXEMPTIONS AND AMENDMENTS

Any investment currently held prior to the adoption of changes to the Investment policy that does not meet the newly revised guidelines of this Policy shall be exempted from the requirements of this policy. Upon that investment's maturity or liquidation, the monies received shall be invested in accordance with this Policy.

This Policy shall be reviewed on an annual basis. Any changes must be prepared by the Treasurer, reviewed and approved for propriety by the Committee and approved by the Stanislaus County Board of Supervisors.

GLOSSARY

Bankers' Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Broker: A broker brings buyers and sellers together for a commission.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also securities pledged by a bank to secure public money deposits.

Coupon: The annual rate of interest that a bond issuer promises to pay the bondholder on the bond's face (or par) value.

Dealer: A dealer acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment: The delivery of securities with an exchange of money for the securities.

Derivatives: Financial instruments with return profiles linked to or derived from the movement of one or more underlying indices or securities. These instruments may include a leveraging factor. Also they include financial contracts based on notional amounts the value of which are derived from underlying indices or securities (such as interest rates, foreign exchange rates, equities or commodities).

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. small business firms, farmers, farm cooperatives and exporters).

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal National Mortgage Association (FNMA): FNMA was chartered under the Federal National Association Act in 1938 and is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). FNMA is the largest single provider of residential mortgage funds in the U.S. FNMA is a corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are highly liquid and widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Liquid Asset: A liquid asset is one that can be converted easily and rapidly into cash without a short-term substantial loss in value. Liquid securities have a narrow spread between bid and asked prices at reasonable sizes.

Local Agency Investment Fund: The California pool of local agency assets, which is managed by the State Treasurer. Limits apply to each agency's deposit of general fund reserves, however no limits on amount of deposit apply to bond proceeds. Funds are still quite liquid in this pool.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to a repurchase agreement which establishes each party's rights in the transactions.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short term debt instruments (Bills, CP, BAs, etc.,) are issued and traded.

Negotiable CD (Certificate of Deposit): A large denomination time deposit with a specific maturity evidenced by a certificate. These are traded like other fixed income securities. (see also "Certificate of Deposit")

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange (SEC)-registered securities broker-dealers, banks and a few unregulated firms.

Repurchase Agreement (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase the securities at a fixed price on a fixed date. The security buyer in effect lends to the security seller cash money for the period of the agreement and the terms of the agreement are structured to compensate the security buyer for this transaction.

Safekeeping: A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Secondary Market: The trading arena of securities subsequent to the initial distribution of those securities.

Securities and Exchange Commission: The Federal Agency created by Congress to protect investors in security transactions by administering securities legislation.

Structured Notes: Notes issued by government sponsored enterprises (such as FHLB and FNMA) and corporations which have imbedded options (e.g. call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. The securities market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the overall yield curve.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance national debt. Most bills are issued to mature in three (3), six (6) or twelve (12) months.

Treasury Bonds: Medium-term interest-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two (2) to ten (10) years.

Uniform Net Capital Rule (SEC Rule 15C3-1): SEC requirement that member firms as well as non-member broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of fifteen (15) to one (1); also called "net capital rule" and "net capital ratio." Indebtedness covers all money owed to a firm including margin loans and commitments to purchase securities. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment expressed as a percentage.

Yield to Maturity: The annual rate of return on invested dollars or cash outflow exclusive of transactional interest (including any purchase with a discount or premium) given the stated interest income and maturity value of the investment as the anticipated cash inflows.

Stanislaus County
Striving to be the Best

OFFICE OF TREASURER/TAX COLLECTOR

Donna Riley
Treasurer/Tax Collector

PO Box 3052, Modesto, CA 95353-0859
Phone: 209.525.6524 Fax: 209.525-4333

County of Stanislaus Treasury Pool
Monthly Investment Report
February 2019

The Stanislaus County Treasury Pool yield to maturity for February 2019 was 2.42%. The Average-Days-to-Maturity at the end of February was 357 days.

With our current cash flow and investment schedule, we will have sufficient cash to meet our historical cash needs for the next six months, through the end of August 2019.

The portfolio has been reviewed by both the Treasurer/Tax Collector and the Assistant Treasurer/Tax Collector for compliance with the investment policy. The Union Bank custodial statement has been reviewed by both the Treasurer/Tax Collector and the Assistant Treasurer/Tax Collector for accuracy and completeness. The custodial statement is the source of market valuation for securities held by our custodial agent. All other securities are valued at cost.

The Treasury Monthly Investment Report for February 2019 has been forwarded to the Treasury Oversight Committee members.

Dolores Sarenana, Assistant Treasurer/Tax Collector — Date 3/7/19

Donna Riley, Treasurer/Tax Collector — Date 3/7/19

The County of Stanislaus Board of Supervisors has reviewed and accepted the February 2019 Treasurer's Monthly Investment Report.

Chairman, Board of Supervisors — Date 4/2/19

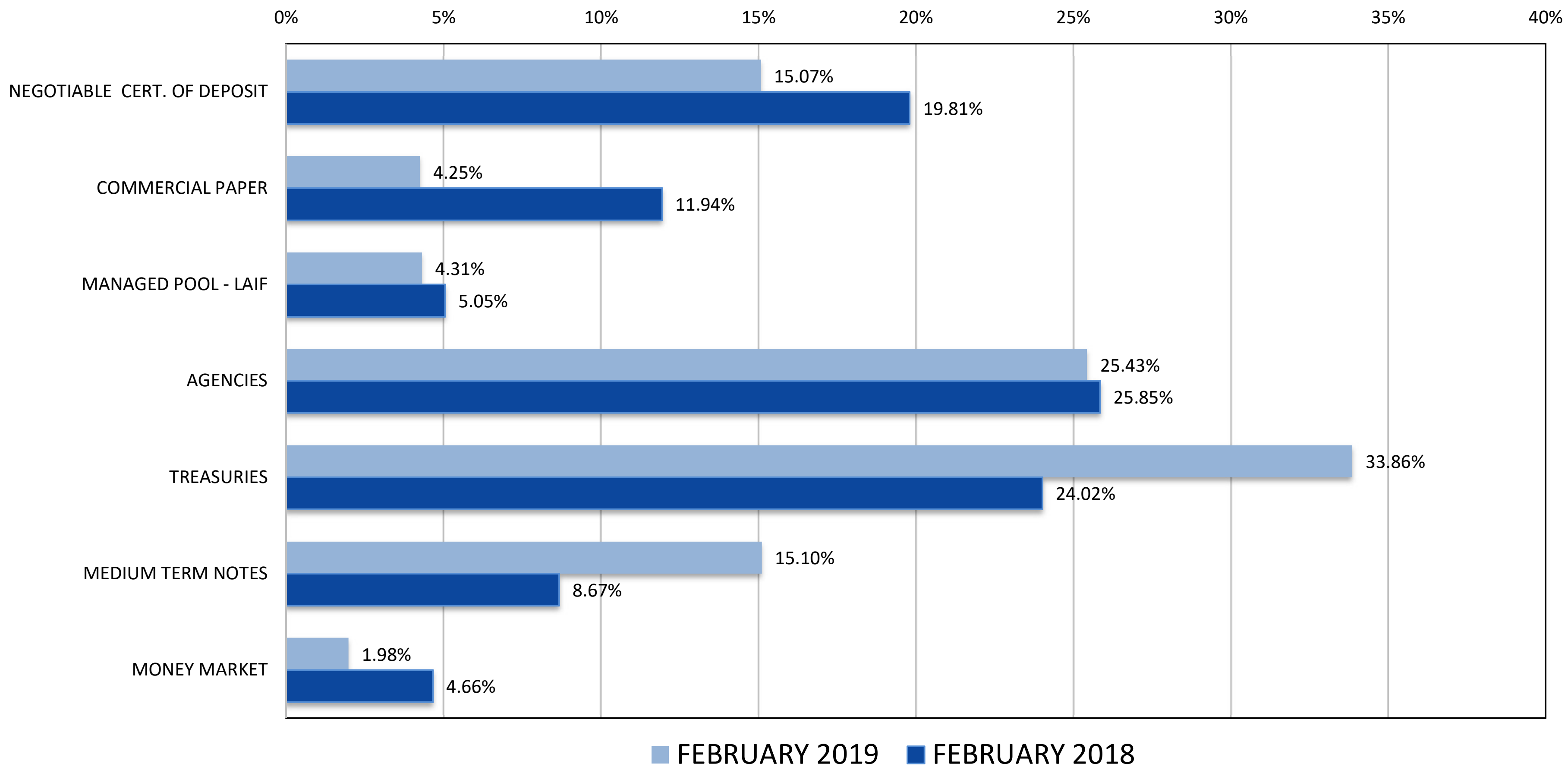
STANISLAUS COUNTY
SHORT-TERM INVESTMENT POOL SUMMARY
FEBRUARY 28, 2019

CASHFLOW:	FEBRUARY 2019	YTD FY 2018/2019	FEBRUARY 2018	YTD FY 2017/2018
BEG. CASH BALANCE	1,422,789,868.96	1,402,455,043.23	1,318,833,345.63	1,331,853,957.72
RECEIPTS	199,471,222.28	1,948,899,546.32	196,220,006.47	1,857,014,461.04
DISBURSEMENTS	(221,277,789.90)	(1,950,371,288.21)	(207,701,956.46)	(1,881,517,023.12)
ENDING CASH BALANCE	1,400,983,301.34	1,400,983,301.34	1,307,351,395.64	1,307,351,395.64

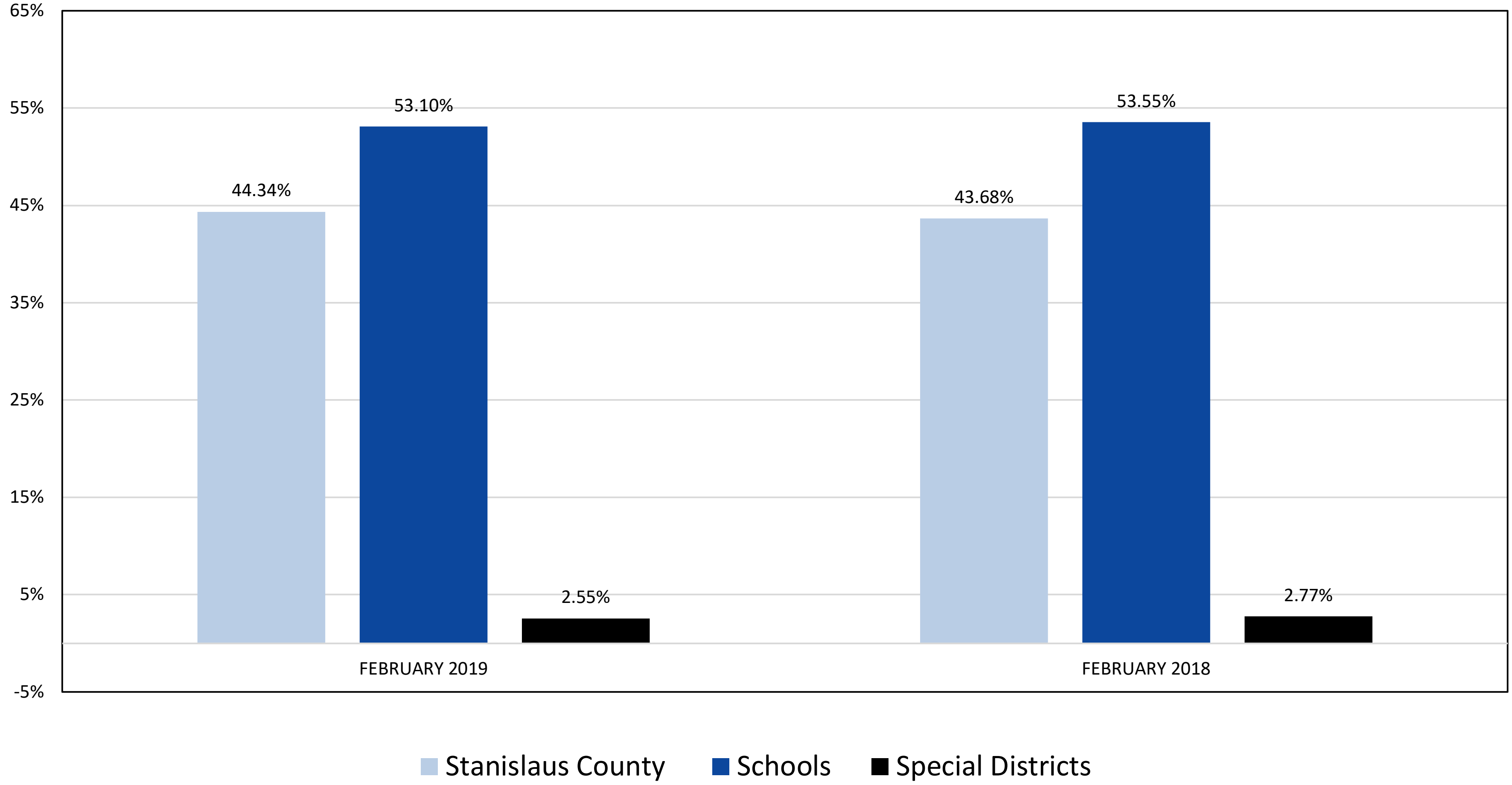
INTEREST INCOME:	FEBRUARY 2019	YTD FY 2018/2019	FEBRUARY 2018	YTD FY 2017/2018
INTEREST RECEIVED	2,427,210.22	15,624,115.12	1,083,325.94	9,435,181.79
TREASURY EXPENSE	(80,371.24)	(641,879.04)	(70,155.42)	(561,243.36)
NET DISTRIBUTION	2,346,838.98	14,982,236.08	1,013,170.52	8,873,938.43

BALANCE - 02/28/2019	DOLLAR COST	MARKET VALUE	MAX INVEST. AS % OF TOTAL	INVESTMENTS AS % OF TOTAL	MAX DAYS TO MATURE	AVG DAYS TO MATURE	YTM 360 EQUIV.
NEGOTIABLE CERT. OF DEPOSIT	210,000,000.00	210,079,850.00	30.00%	15.07%	1,825	153	2.78%
COMMERCIAL PAPER	59,213,683.33	59,490,200.00	15.00%	4.25%	180	118	2.73%
MANAGED POOL - LAIF	60,000,000.00	59,943,067.62		4.31%		1	2.36%
AGENCIES	354,243,479.62	353,336,427.55		25.43%	1,825	301	2.23%
TREASURIES	471,632,807.56	470,780,300.00		33.86%	1,825	533	2.23%
MEDIUM TERM NOTES	210,357,198.19	210,679,349.35	30.00%	15.10%	1,825	480	2.74%
MONEY MARKET	27,544,657.62	27,544,657.62		1.98%		1	2.23%
TOTAL INVESTMENTS	1,392,991,826.32	1,391,853,852.14		100.00%		357	2.42%
CASH/BANK BALANCES	7,991,475.02	7,991,475.02					
TOTAL	1,400,983,301.34	1,399,845,327.16					

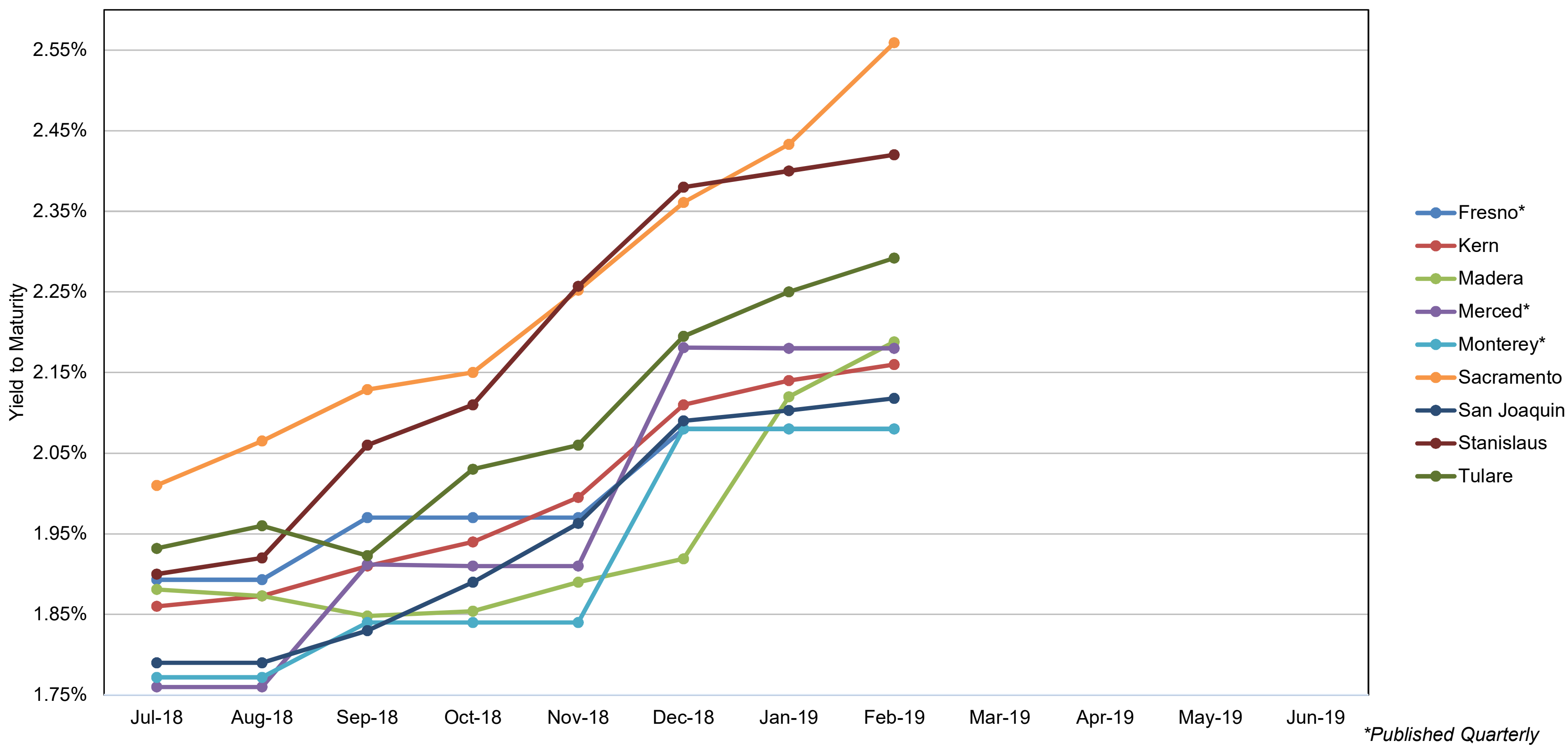
STANISLAUS COUNTY TREASURY POOL
YEARLY COMPARISON OF ASSET DISTRIBUTION
FEBRUARY 28, 2019
VS. FEBRUARY 28, 2018



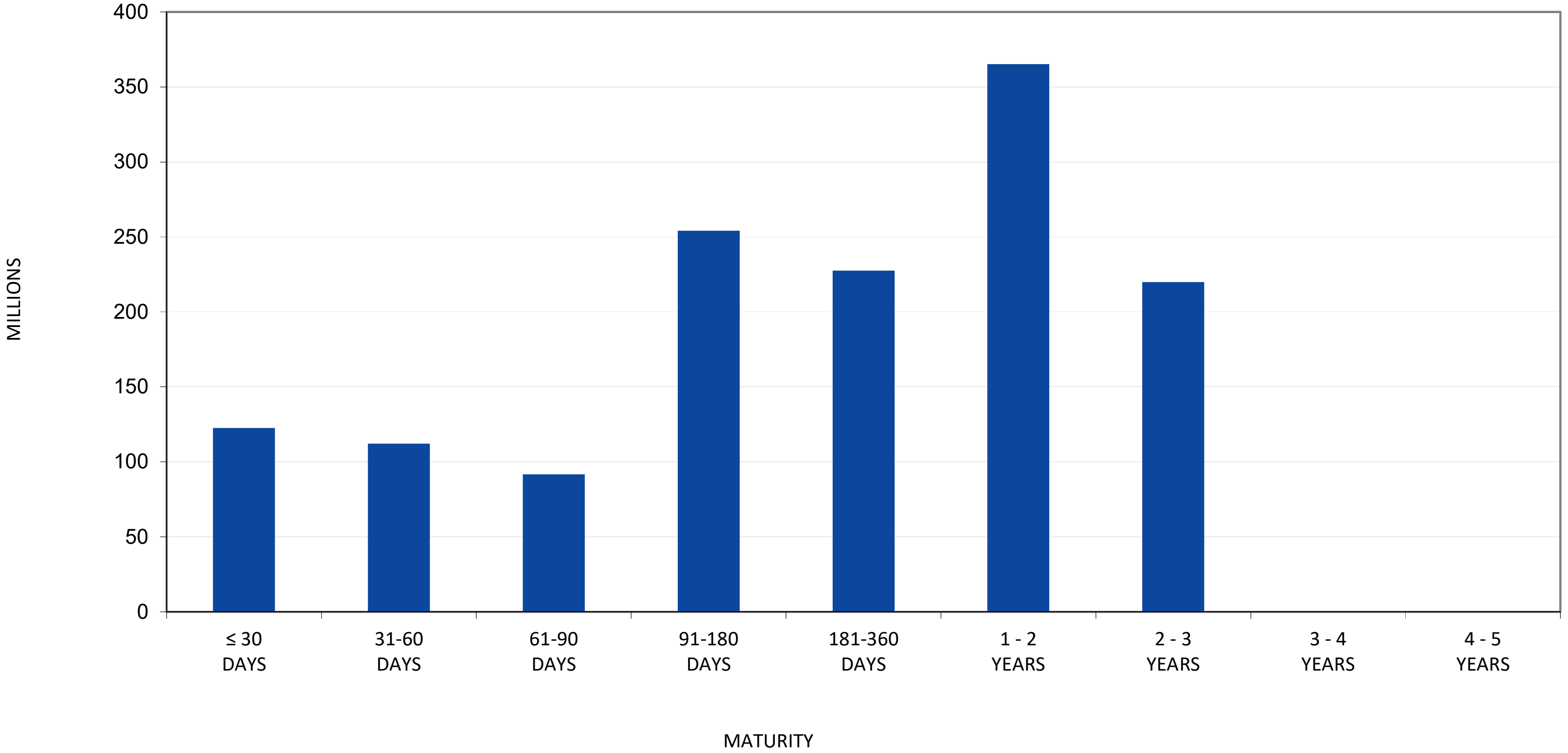
STANISLAUS COUNTY TREASURY POOL
YEARLY COMPARISON OF PARTICIPANTS
FEBRUARY 28, 2019
VS. FEBRUARY 28, 2018



STANISLAUS COUNTY TREASURY POOLED INVESTMENTS
COMPARISON OF YIELD TO MATURITY FOR EIGHT COMPARABLE COUNTIES
FISCAL YEAR 2018 - 2019



STANISLAUS COUNTY TREASURY POOL
MATURITY DISTRIBUTION
FEBRUARY 28, 2019



STANISLAUS COUNTY TREASURY POOL
INTEREST ON INVESTMENTS
FEBRUARY 2019

DATE	90110/11 CERTIFICATE OF DEPOSIT	90115 COMMERCIAL PAPER	90125 MANAGED FUNDS	90130/31 AGENCIES COUP./DISC.	90132/33 TREASURIES COUP./DISC.	90140 MED. TERM NOTES	90165 MONEY MARKET	SYMPRO TOTAL	ORACLE	VARIANCE
1							39,228.67	39,228.67	39,228.67	0.00
2								0.00	0.00	0.00
3								0.00	0.00	0.00
4						495,921.42		495,921.42	495,921.42	0.00
5				196,875.00				196,875.00	196,875.00	0.00
6								0.00	0.00	0.00
7						47,055.56		47,055.56	47,055.56	0.00
8								0.00	0.00	0.00
9								0.00	0.00	0.00
10								0.00	0.00	0.00
11								0.00	0.00	0.00
12				84,202.50				84,202.50	84,202.50	0.00
13								0.00	0.00	0.00
14								0.00	0.00	0.00
15					348,312.59			348,312.59	348,312.59	0.00
16								0.00	0.00	0.00
17								0.00	0.00	0.00
18								0.00	0.00	0.00
19						200,138.08		200,138.08	200,138.08	0.00
20						47,437.50		47,437.50	47,437.50	0.00
21								0.00	0.00	0.00
22		120,150.00						120,150.00	120,150.00	0.00
23								0.00	0.00	0.00
24								0.00	0.00	0.00
25		182,250.00						182,250.00	182,250.00	0.00
26								0.00	0.00	0.00
27								0.00	0.00	0.00
28				97,548.57	502,205.25	65,885.08		665,638.90	665,638.90	0.00
TOTAL	0.00	302,400.00	0.00	378,626.07	850,517.84	856,437.64	39,228.67	2,427,210.22	2,427,210.22	0.00

Stanislaus County Pool 2018/19
Portfolio Management
Portfolio Summary
February 28, 2019

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM 360 Equiv.
Negotiable CDs	210,000,000.00	210,079,850.00	210,000,000.00	15.07	357	153	2.775
Commercial Paper Disc. -Amortizing	60,000,000.00	59,490,200.00	59,476,168.05	4.27	175	118	2.727
Managed Pool Account	60,000,000.00	59,943,067.62	60,000,000.00	4.31	1	1	2.357
Federal Agency Coupon Securities	354,805,000.00	353,336,427.55	354,243,479.62	25.43	804	301	2.227
Treasury Coupon Securities	475,000,000.00	470,780,300.00	471,632,807.56	33.85	831	533	2.232
Medium Term Notes	211,536,000.00	210,679,349.35	210,357,198.19	15.10	801	480	2.737
Money Market Accounts	27,544,657.62	27,544,657.62	27,544,657.62	1.98	1	1	2.228
Investments	**1,398,885,657.62**	**1,391,853,852.14**	**1,393,254,311.04**	**100.00%**	**668**	**357**	**2.415**

Total Earnings	February 28 Month Ending	Fiscal Year To Date
Current Year	2,782,886.20	18,662,749.82
Average Daily Balance	**1,375,961,575.13**	**1,309,021,918.65**
Effective Rate of Return	**2.64%**	**2.14%**

Stanislaus County Pool 2018/19
Portfolio Management
Portfolio Details - Investments
February 28, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM 360	YTM 365	Days to Maturity	Maturity Date
Negotiable CDs												
06426GQM2	3521	Bank of the West		06/29/2018	25,000,000.00	25,002,250.00	25,000,000.00	2.570	2.570	2.606	31	04/01/2019
83369YD60	3507	Societe Generale NY		04/05/2018	25,000,000.00	25,003,500.00	25,000,000.00	2.630	2.630	2.667	35	04/05/2019
78012UHP3	3526	Royal Bank of Canada NY		09/17/2018	10,000,000.00	10,001,600.00	10,000,000.00	2.660	2.660	2.697	111	06/20/2019
85325TP90	3532	Standard Chartered Bk NY		09/24/2018	25,000,000.00	25,008,000.00	25,000,000.00	2.740	2.740	2.778	117	06/26/2019
78012UKE4	3550	Royal Bank of Canada NY		11/28/2018	25,000,000.00	25,035,500.00	25,000,000.00	2.960	2.960	3.001	146	07/25/2019
53947CAL2	3539	Lloyds Bank Corp		10/29/2018	25,000,000.00	25,032,250.00	25,000,000.00	2.990	2.990	3.032	150	07/29/2019
21685V6F1	3533	Cooperatieve Rabobank UA		09/25/2018	25,000,000.00	25,022,250.00	25,000,000.00	2.800	2.800	2.839	209	09/26/2019
53947CAR9	3544	Lloyds Bank Corp		11/16/2018	25,000,000.00	25,000,000.00	25,000,000.00	3.190	3.190	3.234	259	11/15/2019
22549LBD6	3485	Credit Suisse New York		12/15/2017	25,000,000.00	24,974,500.00	25,000,000.00	2.370	2.370	2.403	290	12/16/2019
		Subtotal and Average	**210,000,000.00**		**210,000,000.00**	**210,079,850.00**	**210,000,000.00**		**2.775**	**2.814**	**153**	
Commercial Paper Disc. -Amortizing												
62479MS12	3540	MUFG Bank LTD/NY		11/05/2018	20,000,000.00	19,913,600.00	19,906,466.67	2.760	2.798	2.837	61	05/01/2019
63873KT49	3568	Natixis Banque Popular NY		12/20/2018	15,000,000.00	14,897,850.00	14,889,166.66	2.800	2.837	2.876	95	06/04/2019
2254EBVT5	3586	Credit Suisse New York		02/28/2019	25,000,000.00	24,678,750.00	24,680,534.72	2.570	2.603	2.640	179	08/27/2019
		Subtotal and Average	**55,982,731.00**		**60,000,000.00**	**59,490,200.00**	**59,476,168.05**		**2.727**	**2.765**	**118**	
Managed Pool Account												
SYS61	61	Local Agency Investment Fund			60,000,000.00	59,943,067.62	60,000,000.00	2.390	2.357	2.390	1	
		Subtotal and Average	**57,321,428.57**		**60,000,000.00**	**59,943,067.62**	**60,000,000.00**		**2.357**	**2.390**	**1**	
Federal Agency Coupon Securities												
3133782M2	3370	Federal Home Loan Bank		04/30/2015	20,000,000.00	19,997,600.00	20,000,831.12	1.500	1.263	1.280	7	03/08/2019
3130A7L37	3407	Federal Home Loan Bank		03/29/2016	10,000,000.00	9,996,400.00	10,000,571.29	1.250	1.085	1.100	14	03/15/2019
3133EF4Y0	3415	Federal Farm Credit Bank		04/26/2016	20,000,000.00	19,956,600.00	20,000,000.00	1.000	0.986	1.000	56	04/26/2019
3133EF5X1	3416	Federal Farm Credit Bank		05/03/2016	30,000,000.00	29,931,900.00	30,000,000.00	1.100	1.085	1.100	63	05/03/2019
3130ABF92	3518	Federal Home Loan Bank		06/25/2018	25,000,000.00	24,932,750.00	24,942,130.63	1.375	4.576	4.639	88	05/28/2019
3130A8Y72	3515	Federal Home Loan Bank		04/24/2018	20,000,000.00	19,863,800.00	19,871,388.29	0.875	2.377	2.410	157	08/05/2019
3130A8Y72	3517	Federal Home Loan Bank		06/25/2018	25,000,000.00	24,829,750.00	24,835,893.75	0.875	2.406	2.439	157	08/05/2019
3130A9EP2	3418	Federal Home Loan Bank		10/28/2016	20,000,000.00	19,830,800.00	19,989,906.49	1.000	1.092	1.107	209	09/26/2019
3133EJSU4	3519	Federal Farm Credit Bank		06/26/2018	20,000,000.00	20,002,000.00	20,000,000.00	2.530	2.495	2.530	300	12/26/2019
3133EG3J2	3441	Federal Farm Credit Bank		04/06/2017	20,000,000.00	19,835,200.00	20,010,134.21	1.550	1.469	1.489	315	01/10/2020
3133EHCS0	3437	Federal Farm Credit Bank		03/16/2017	20,000,000.00	19,825,800.00	20,000,000.00	1.700	1.677	1.700	381	03/16/2020
3133EJW88	3547	Federal Farm Credit Bank		11/26/2018	20,000,000.00	20,040,400.00	19,983,188.89	2.750	2.781	2.820	452	05/26/2020
313383HU8	3548	Federal Home Loan Bank		11/26/2018	20,000,000.00	19,799,800.00	19,729,203.96	1.750	4.038	4.094	469	06/12/2020
313370US5	3549	Federal Home Loan Bank		11/26/2018	20,000,000.00	20,092,400.00	20,119,791.67	2.875	2.834	2.874	560	09/11/2020
3130ACE26	3585	Federal Home Loan Bank		02/15/2019	9,805,000.00	9,627,627.55	9,682,084.96	1.375	2.498	2.533	577	09/28/2020
3130AEWA4	3583	Federal Home Loan Bank		02/15/2019	10,000,000.00	10,007,600.00	10,112,006.96	2.625	2.497	2.531	580	10/01/2020

Stanislaus County Pool 2018/19
Portfolio Management
Portfolio Details - Investments
February 28, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM 360	YTM 365	Days to Maturity	Maturity Date
Federal Agency Coupon Securities												
3133EHW58	3481	Federal Farm Credit Bank		11/27/2017	25,000,000.00	24,707,000.00	24,981,886.57	1.900	1.916	1.943	637	11/27/2020
3133EJ2R9	3559	Federal Farm Credit Bank		12/14/2018	20,000,000.00	20,059,000.00	19,984,460.83	2.750	2.757	2.795	654	12/14/2020
		Subtotal and Average	**350,720,622.95**		**354,805,000.00**	**353,336,427.55**	**354,243,479.62**		**2.227**	**2.258**	**301**	
Treasury Coupon Securities												
912828W97	3516	U S Treasury Securities		06/25/2018	25,000,000.00	24,975,750.00	24,979,313.68	1.250	2.238	2.269	30	03/31/2019
912828R85	3419	U S Treasury Securities		11/17/2016	20,000,000.00	19,913,200.00	19,981,675.53	0.875	1.180	1.196	106	06/15/2019
912828S43	3420	U S Treasury Securities		11/29/2016	20,000,000.00	19,873,400.00	19,960,073.07	0.750	1.278	1.296	136	07/15/2019
9128282B5	3423	U S Treasury Securities		12/02/2016	20,000,000.00	19,838,200.00	19,946,012.93	0.750	1.334	1.352	167	08/15/2019
912828T59	3422	U S Treasury Securities		11/30/2016	20,000,000.00	19,811,000.00	19,957,391.30	1.000	1.329	1.348	228	10/15/2019
912828U32	3430	U S Treasury Securities		12/19/2016	20,000,000.00	19,784,400.00	19,923,715.83	1.000	1.531	1.552	259	11/15/2019
912828U73	3431	U S Treasury Securities		12/28/2016	20,000,000.00	19,818,800.00	19,970,786.16	1.375	1.543	1.564	289	12/15/2019
912828H52	3557	U S Treasury Securities		12/06/2018	10,000,000.00	9,882,400.00	9,867,414.59	1.250	2.689	2.726	336	01/31/2020
912828W22	3442	U S Treasury Securities		04/07/2017	20,000,000.00	19,778,200.00	19,989,281.37	1.375	1.414	1.434	351	02/15/2020
9128283Y4	3556	U S Treasury Securities		12/06/2018	10,000,000.00	9,970,300.00	9,952,193.91	2.250	2.715	2.753	365	02/29/2020
912828X21	3554	U S Treasury Securities		12/03/2018	15,000,000.00	14,827,800.00	14,818,107.63	1.500	2.754	2.793	411	04/15/2020
9128282J8	3551	U S Treasury Securities		11/30/2018	15,000,000.00	14,786,700.00	14,738,090.74	1.500	2.772	2.810	502	07/15/2020
912828Y46	3552	U S Treasury Securities		11/30/2018	15,000,000.00	15,013,500.00	14,961,228.52	2.625	2.774	2.812	518	07/31/2020
912828L32	3529	U S Treasury Securities		09/19/2018	20,000,000.00	19,656,200.00	19,587,358.45	1.375	2.758	2.796	549	08/31/2020
912828WC0	3527	U S Treasury Securities		09/19/2018	20,000,000.00	19,737,600.00	19,656,860.24	1.750	2.777	2.816	610	10/31/2020
912828A83	3582	U S Treasury Securities		02/15/2019	10,000,000.00	9,970,300.00	10,005,188.82	2.375	2.480	2.515	671	12/31/2020
9128283X6	3567	U S Treasury Securities		12/13/2018	15,000,000.00	14,919,150.00	14,858,631.71	2.250	2.711	2.749	717	02/15/2021
912828P87	3565	U S Treasury Securities		12/13/2018	15,000,000.00	14,591,550.00	14,529,680.13	1.125	2.732	2.770	730	02/28/2021
9128284B3	3569	U S Treasury Securities		12/21/2018	15,000,000.00	14,955,450.00	15,015,565.13	2.375	2.609	2.645	745	03/15/2021
912828C57	3570	U S Treasury Securities		12/21/2018	15,000,000.00	14,916,750.00	14,962,171.25	2.250	2.588	2.624	761	03/31/2021
912828R77	3573	U S Treasury Securities		12/26/2018	15,000,000.00	14,628,450.00	14,619,893.40	1.375	2.552	2.588	822	05/31/2021
9128284T4	3571	U S Treasury Securities		12/21/2018	15,000,000.00	15,039,900.00	15,001,513.20	2.625	2.604	2.640	837	06/15/2021
912828WR7	3574	U S Treasury Securities		12/26/2018	15,000,000.00	14,871,150.00	14,855,347.33	2.125	2.517	2.552	852	06/30/2021
912828Y20	3580	U S Treasury Securities		01/15/2019	15,000,000.00	15,039,900.00	15,035,027.34	2.625	2.488	2.523	867	07/15/2021
912828WY2	3575	U S Treasury Securities		12/27/2018	15,000,000.00	14,912,100.00	14,891,942.58	2.250	2.522	2.557	883	07/31/2021
9128282F6	3576	U S Treasury Securities		12/27/2018	15,000,000.00	14,500,800.00	14,481,447.14	1.125	2.543	2.578	914	08/31/2021
912828D72	3579	U S Treasury Securities		01/15/2019	15,000,000.00	14,816,550.00	14,809,921.25	2.000	2.503	2.537	914	08/31/2021
9128285A4	3587	U S Treasury Securities		02/28/2019	15,000,000.00	15,091,950.00	15,283,768.80	2.750	2.458	2.492	929	09/15/2021
912828F21	3588	U S Treasury Securities		02/28/2019	15,000,000.00	14,858,850.00	14,993,205.53	2.125	2.466	2.500	944	09/30/2021
		Subtotal and Average	**447,657,086.81**		**475,000,000.00**	**470,780,300.00**	**471,632,807.56**		**2.232**	**2.263**	**533**	

Stanislaus County Pool 2018/19
Portfolio Management
Portfolio Details - Investments
February 28, 2019

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM 360	YTM 365	Days to Maturity	Maturity Date
Medium Term Notes												
14912L6W6	3453	Caterpillar Financial Service		04/25/2017	5,000,000.00	4,998,350.00	5,000,455.46	1.900	1.716	1.740	21	03/22/2019
94974BFU9	3434	Wells Fargo Bank, NA		12/30/2016	9,019,000.00	9,012,506.32	9,019,923.26	2.125	2.022	2.050	52	04/22/2019
94974BFU9	3435	Wells Fargo Bank, NA		12/30/2016	8,047,000.00	8,041,206.16	8,047,823.75	2.125	2.022	2.050	52	04/22/2019
94988J5D5	3433	Wells Fargo Bank, NA		12/30/2016	16,974,000.00	16,940,391.48	16,963,531.52	1.750	2.068	2.097	84	05/24/2019
89236TDH5	3445	Toyota Motor Credit Corp		04/18/2017	10,000,000.00	9,928,800.00	9,986,480.89	1.550	1.746	1.770	231	10/18/2019
89236TDH5	3446	Toyota Motor Credit Corp		04/18/2017	7,930,000.00	7,873,538.40	7,919,679.37	1.550	1.738	1.762	231	10/18/2019
48127HAA7	3490	JP Morgan Chase Bank		12/29/2017	10,003,000.00	9,969,089.83	10,001,372.25	2.200	2.195	2.225	235	10/22/2019
14912L6J5	3484	Caterpillar Financial Service		12/15/2017	7,695,000.00	7,641,135.00	7,681,730.36	2.000	2.145	2.175	370	03/05/2020
14912L6J5	3581	Caterpillar Financial Service		02/15/2019	2,411,000.00	2,394,123.00	2,416,403.29	2.000	2.634	2.671	370	03/05/2020
06051GFN4	3491	Bank of America Corp		12/29/2017	10,000,000.00	9,930,400.00	10,004,336.54	2.250	2.180	2.210	417	04/21/2020
63254AAV0	3537	National Australia Bank/NY		09/28/2018	10,000,000.00	9,907,300.00	9,882,325.76	2.125	3.074	3.117	448	05/22/2020
24422ETS8	3534	John Deere		09/26/2018	9,000,000.00	8,901,630.00	8,891,519.52	1.950	2.861	2.900	479	06/22/2020
40428HPV8	3545	HSBC		11/20/2018	8,000,000.00	7,980,240.00	7,943,599.61	2.750	3.213	3.258	525	08/07/2020
857477AS2	3555	State Street Corp		12/06/2018	5,000,000.00	4,978,850.00	4,946,912.50	2.550	4.494	4.556	536	08/18/2020
931142CZ4	3553	Walmart Inc		12/04/2018	3,053,000.00	3,085,667.10	3,075,599.31	3.250	2.964	3.005	604	10/25/2020
14912L6N6	3546	Caterpillar Financial Service		11/26/2018	6,000,000.00	5,968,680.00	5,933,794.49	2.500	3.186	3.230	623	11/13/2020
24422ETZ2	3542	John Deere		11/20/2018	11,695,000.00	11,603,428.15	11,525,581.48	2.350	3.121	3.164	679	01/08/2021
21688AAF9	3538	Rabobank USA		09/28/2018	20,000,000.00	19,819,000.00	19,691,432.49	2.500	3.311	3.357	690	01/19/2021
24422ESL4	3572	John Deere		12/26/2018	5,000,000.00	5,000,450.00	5,013,552.90	2.800	3.068	3.110	734	03/04/2021
89236TEU5	3560	Toyota Motor Credit Corp		12/11/2018	15,000,000.00	15,039,000.00	14,971,788.23	2.950	3.232	3.277	774	04/13/2021
21688AAN2	3564	Cooperatieve Rabobank UA		12/12/2018	10,000,000.00	10,025,500.00	9,968,964.52	3.125	3.423	3.470	787	04/26/2021
857477AV5	3561	State Street Corp		12/11/2018	5,000,000.00	4,894,950.00	4,863,672.57	1.950	3.251	3.296	810	05/19/2021
857477AV5	3577	State Street Corp		12/28/2018	2,709,000.00	2,652,083.91	2,643,542.13	1.950	3.146	3.190	810	05/19/2021
24422ERE1	3562	John Deere		12/11/2018	5,000,000.00	5,122,550.00	5,066,635.77	3.900	3.261	3.306	864	07/12/2021
14912L6E6	3563	Caterpillar Financial Service		12/11/2018	9,000,000.00	8,970,480.00	8,896,540.22	2.750	3.194	3.239	903	08/20/2021
		Subtotal and Average	**227,671,108.33**		**211,536,000.00**	**210,679,349.35**	**210,357,198.19**		**2.737**	**2.775**	**480**	
Money Market Accounts												
SYS3505	3505	Dreyfus Treasury/Agency Fund			27,544,657.62	27,544,657.62	27,544,657.62	2.259	2.228	2.259	1	
		Subtotal and Average	**26,608,597.47**		**27,544,657.62**	**27,544,657.62**	**27,544,657.62**		**2.228**	**2.259**	**1**	
		Total and Average	**1,375,961,575.13**		**1,398,885,657.62**	**1,391,853,852.14**	**1,393,254,311.04**		**2.415**	**2.449**	**357**	

Stanislaus County Pool 2018/19
Portfolio Management
Activity By Type
February 1, 2019 through February 28, 2019

CUSIP	Investment #	Issuer	Stated Rate	Transaction Date	Purchases or Deposits	Redemptions or Withdrawals	Balance
Negotiable CDs							
		Subtotal					**210,000,000.00**
Commercial Paper Disc. -Amortizing							
2254EBVT5	3586	Credit Suisse New York	2.570	02/28/2019	24,678,750.00	0.00	
46640QPN5	3524	JP Morgan Securities LLC	2.430	02/22/2019	0.00	10,000,000.00	
63873KPR2	3525	Natixis Banque Popular NY	2.430	02/25/2019	0.00	15,000,000.00	
		Subtotal			**24,678,750.00**	**25,000,000.00**	**59,476,168.05**
Managed Pool Account (Monthly Summary)							
SYS61	61	Local Agency Investment Fund	2.390		25,000,000.00	0.00	
		Subtotal			**25,000,000.00**	**0.00**	**60,000,000.00**
Federal Agency Coupon Securities							
3133EFZN0	3401	Federal Farm Credit Bank	1.030	02/12/2019	0.00	16,350,000.00	
3130AEWA4	3583	Federal Home Loan Bank	2.625	02/15/2019	10,014,700.00	0.00	
3130ACE26	3585	Federal Home Loan Bank	1.375	02/15/2019	9,625,862.65	0.00	
		Subtotal			**19,640,562.65**	**16,350,000.00**	**354,243,479.62**
Treasury Coupon Securities							
912828P53	3405	U S Treasury Securities	0.750	02/15/2019	0.00	20,000,000.00	
912828A83	3582	U S Treasury Securities	2.375	02/15/2019	9,974,402.50	0.00	
9128285A4	3587	U S Treasury Securities	2.750	02/28/2019	15,094,921.88	0.00	
912828F21	3588	U S Treasury Securities	2.125	02/28/2019	14,861,718.75	0.00	
		Subtotal			**39,931,043.13**	**20,000,000.00**	**471,632,807.56**
Medium Term Notes							
14912L6J5	3581	Caterpillar Financial Service	2.000	02/15/2019	2,394,267.66	0.00	
57629WCF5	3528	MassMutual Global Funding	1.950	02/04/2019	0.00	12,311,145.52	
57629WCF5	3536	MassMutual Global Funding	1.950	02/04/2019	0.00	4,907,893.71	
59217GBR9	3535	Metlife Inc.	2.500	02/04/2019	0.00	11,398,547.86	
78013GKN4	3530	Royal Bank of Canada NY	2.150	02/04/2019	0.00	19,663,659.26	
78012KCB1	3531	Royal Bank of Canada NY	2.150	02/04/2019	0.00	5,701,671.52	
89236TCU7	3508	Toyota Motor Credit Corp	1.700	02/19/2019	0.00	9,634,000.00	
89236TCU7	3511	Toyota Motor Credit Corp	1.700	02/19/2019	0.00	10,100,000.00	
		Subtotal			**2,394,267.66**	**73,716,917.87**	**210,357,198.19**
Money Market Accounts (Monthly Summary)							
SYS3505	3505	Dreyfus Treasury/Agency Fund	2.259		112,377,137.15	105,236,722.06	

CUSIP	Investment #	Issuer	Stated Rate	Transaction Date	Purchases or Deposits	Redemptions or Withdrawals	Balance
		Subtotal			**112,377,137.15**	**105,236,722.06**	**27,544,657.62**
		Total			**224,021,760.59**	**240,303,639.93**	**1,393,254,311.04**

Stanislaus County Pool 2018/19
Portfolio Management
Activity Summary
February 2018 through February 2019

Month End	Year	Number of Securities	Total Invested	Yield to Maturity 360 Equivalent	Yield to Maturity 365 Equivalent	Managed Pool Rate	Number of Investments Purchased	Number of Investments Redeemed	Average Term	Average Days to Maturity
February	**2018**	76	1,287,837,134.40	1.485	1.506	1.460	2	4	725	286
March	**2018**	81	1,377,166,960.03	1.634	1.657	1.590	9	5	671	264
April	**2018**	85	1,465,113,893.31	1.761	1.786	1.730	9	3	642	255
May	**2018**	82	1,398,005,612.77	1.766	1.791	1.800	0	5	633	237
June	**2018**	82	1,391,882,553.91	1.893	1.919	1.900	6	7	633	244
July	**2018**	75	1,270,669,294.95	1.896	1.922	1.813	0	5	664	234
August	**2018**	72	1,212,873,448.84	1.917	1.944	2.040	2	5	662	218
September	**2018**	80	1,239,656,812.25	2.062	2.090	2.090	13	8	686	279
October	**2018**	74	1,226,299,259.44	2.111	2.141	2.190	1	4	660	258
November	**2018**	80	1,373,602,971.28	2.257	2.288	2.260	11	3	627	270
December	**2018**	100	1,479,729,520.48	2.376	2.409	2.320	23	6	678	358
January	**2019**	96	1,409,073,455.20	2.402	2.435	2.390	2	6	687	365
February	**2019**	97	1,393,254,311.04	2.415	2.449	2.390	7	11	668	357
	Average	**83**	**1,348,089,632.92**	**1.998%**	**2.026%**	**1.998**	**7**	**6**	**664**	**279**

Stanislaus County Pool 2018/19
Portfolio Management
Distribution of Investments By Type
February 2018 through February 2019

Security Type	February 2018	March 2018	April 2018	May 2018	June 2018	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	Average by Period
Certificates of Deposit - Bank														
Negotiable CDs	19.8	21.1	28.3	29.7	28.0	28.7	28.0	26.6	26.9	25.8	17.6	14.9	15.1	23.9%
Commercial Paper Disc. -Amortizing	12.0	19.1	17.0	14.6	13.2	11.0	9.4	4.0	4.1	5.1	4.0	4.2	4.3	9.4%
Bankers Acceptances -Amortizing														
Managed Pool Account	5.1	4.7	4.0	2.9	2.2		1.7	2.4	4.5	4.7	2.4	2.5	4.3	3.2%
Federal Agency Coupon Securities	25.8	22.8	21.4	22.4	25.3	27.8	28.4	25.9	25.3	25.5	25.1	24.9	25.4	25.1%
Federal Agency Disc. -Amortizing														
Treasury Coupon Securities	24.0	21.7	20.4	20.7	22.6	22.4	21.8	23.7	21.5	20.6	29.2	32.0	33.9	24.2%
Treasury Discounts -Amortizing														
Rolling Repurchase Agreements														
Repurchase Agreements - Term														
Medium Term Notes	8.7	8.1	9.0	8.2	8.2	9.0	9.4	16.7	16.9	16.9	19.7	20.0	15.1	12.8%
California Registered Warrants														
Money Market Accounts	4.7	2.5		1.6	0.5	1.2	1.3	0.7	0.9	1.3	2.1	1.5	2.0	1.6%
Municipal Anticipation Note														
Municipal Bonds														
Calif Local Agency Indebtedness														