Financial Statements
June 30, 2022

Franklin-McKinley School District

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Independent Auditor's Report

To the Governing Board
Franklin-McKinley School District
San Jose, California

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Adoption of New Accounting Standard

As discussed in Note 1 and Note 16 to the financial statements, the Franklin-McKinley School District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement of lease receivable and deferred inflow of resources related to leases has been made to the Governmental Activities net position and fund balance of the General Fund as of July 1, 2021. The restatement does not affect the beginning fund balance and net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2023 on our consideration of Franklin-McKinley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Franklin-McKinley School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franklin-McKinley School District's internal control over financial reporting and compliance.

Eide Bailly LLP

Menlo Park, California
April 5, 2023

Franklin-McKinley School District
PREPARING ALL CHILDREN AS GLOBAL LEARNERS

This section of Franklin-McKinley School District's (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, 2022. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

The Financial Statements

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by GASB Statement Number 34 (the Statement).

The Government-Wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities. These statements include all assets of the District (including capital assets), deferred outflows, as well as all liabilities (including long-term liabilities) and deferred inflows. Additionally, certain eliminations have occurred as prescribed by the Statement in regards to interfund activity, payables, and receivables.

The Fund Financial Statements include statements for each of the two categories of activities: governmental, and proprietary.

- The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The *Proprietary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Governmental 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 District.

Financial Highlights of the Past Year

The District's primary source of operating revenue was based on a revenue limit calculation. FY 2013-14 was the first year of implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations are provided on the basis of target base funding grants per ADA (a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons. 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 called the "Supplemental Grant" and "Concentration Grant".

A supplemental grant add-on is authorized for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by the district's 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 equal to 65% of the applicable base grant multiplied by the percentage of the district's unduplicated EL/LI student enrollment. Full implementation of the LCFF was reached in 2018-2019.

For 2021-2022, the Unduplicated Pupil Percentage is 81.21% for the District. Due to COVID-19, ADA was not collected during 2020-21. For apportionment purposes, the higher of prior year's ADA or current year's ADA will be used for calculation. Because the District has significant decline in ADA (from 6,573 in 2019-20 to 5,569 in 2021-22), and no ADA was collected during 2020-21, ADA of 2019-20 was used to calculate LCFF entitlement. This resulted in total LCFF related revenue of $79.7 million in the General Fund revenues for fiscal year 2021-2022.

The recommended reserves for a district our size equals 3% of General Fund expenditures and other financing uses. The Board of Trustees passed a resolution on June 14, 2011 to maintain a minimum unassigned fund balance of 5% of the District's General Fund annual operating expenditures. If a fund balance drops below 4%, it shall be recovered at a rate of 1% minimally each year. This policy will be revisited each year. At June 30, 2022, the District's available reserves totaled consisting of $8,985,912 in unassigned fund balance and $3,298,676 reserved for economic uncertainties. This reserve amount is equal to 11.17% of General Fund expenditures and other financing uses.

Reporting the District as A Whole

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, 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 differences between revenues and expenses are the District's operating results. Since the 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 governmental activities, all of the District's services are reported in this category. This includes the education of transitional kindergarten through grade eight students, the operation of the different educational programs 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 certificates of participation and 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 debt 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. and State Departments of Education.

Governmental Funds - Most activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, 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 one determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. As the name suggests, these funds record governmental type activities.

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 Net Position. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

The District as A Whole

Net Position

Table 1

(Amounts in millions)	Govermental Avtivities	
	2022	**Restated * 2021**
Assets		
Current and other assets	$ 93.2	$ 101.2
Capital assets	182.1	181.6
Total assets	275.3	282.8
Deferred Outflows of Reserves		
Deferred charge on refunding	4.6	4.8
Deferred outflow related to pension	18.9	22.9
Total deferred outflows	23.5	27.70
Liabilities		
Current liabilities	14.0	16.4
Current portion of long-term debt	9.4	8.6
Long-term debt	229.7	288.5
Total liabilities	253.1	313.5
Deferred Inflows of Reserves		
Deferred inflow related to leases	5.3	5.7
Deferred inflow related to pension	47.7	11.4
Total deferred outflows	53.0	17.1
Net Position		
Net investment in capital assets	36.6	35.0
Restricted	21.3	25.1
Unrestricted	(65.1)	(80.2)
Total net position	$ (7.2)	$ (20.1)

* As a result of GASB 87 implementation, $5.7 million of leases receivable and deferred inflows of resources related to leases are added to the 2021 column.

The District's net position was a deficit $7.2 million and a deficit of $20.1 million of June 30, 2022, and 2021, respectively. Of these amounts, negative $65.1 million and negative $80.2 million were unrestricted for the combined governmental funds for each respective year. The negative unrestricted net position is primarily the result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

The negative $65.1 million and negative $80.2 million for fiscal years 2021-2022 and 2020-2021 in unrestricted net deficit represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills at those year-end dates, including all of our non-capital liabilities (compensated absences and pension liability as examples); we would be short by $65.1 million and $80.2 million from governmental activities for fiscal years 2021-2022 and 2020-2021, respectively.

In 2021-2022, current assets decreased by $8.0 million and current liabilities decreased by $2.4 million, from 2020-2021.

Capital assets increased by $0.5 million. The increase is due to $11.3 million in additions to various bond projects offset by $10.9 million in depreciation.

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 and expenses for the year.

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities was $118.2 million and $137.7 million for 2021-2022 and 2020-2021, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only $99.9 million and $91.2 million for 2021-2022 and 2020-2021. This is approximately 76% and 67% of the total revenue in 2021-2022 and 2020-2021, respectively. The cost paid by those who benefited from the programs was $0.0 million and $0.2 million for 2021-2022 and 2020-2021, The program cost subsidized by other governments and organizations with grants and contributions of $31.2 million and $44.8 million for 2021-2022 and 2020-2021, respectively.

Table 2

(Amounts in millions)	Governmental Acvtivities	
	2022	2021 *
Revenues		
Charges for services and sales	$ -	$ 0.2
Operating grants and contributions	31.2	42.2
Capital contributions	-	2.6
General revenues		
Property tax, federal revenue	96.3	88.9
Other general revenues	3.6	2.3
Total revenues	131.1	136.2
Expenses		
Instruction related	80.0	93.5
Pupil services	12.5	11.8
Administration	6.9	14.1
Plant services	11.6	11.1
Ancillary	0.2	-
Debt service	6.9	6.9
All other services	0.1	0.3
Total expenses	118.2	137.7
Change in Net Position	12.9	(1.5)
Net Position - Beginning	(20.1)	(18.6)
Net Position - Ending	$ (7.2)	$ (20.1)

* The revenues and expenses for fiscal year 2021 were not restated to show the effects of GASB 87 for comparative purposes because the adoption of GASB 87 does not affect the statement of activities.

In Table 3, we have presented the net cost of each of the District's largest functions. Below is a brief description of most functions presented. 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.

- Instruction expenditures include activities directly dealing with the teaching of pupils.
- Instruction-related services include the activities involved with assisting staff with the content and process of educating students.
- Pupil services include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.
- Administration reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services personnel.

- Plant services involve keeping the school grounds, buildings, and equipment in effective working condition.
- Enterprise services are costs generated from performing fee based services.
- Other includes tuitions and transfers of resources between the District and other educational agencies for services provided to students.

Table 3

(Amounts in millions)	Net Cost	
	2022	2021 *
Instruction	$ 50.4	$ 60.8
Instruction related	8.8	10.3
Pupil services	6.9	4.8
Administration	5.3	4.1
Plant servies	10.4	9.3
Interest on long-term	6.9	7.0
Other	(1.7)	(3.5)
Totals	$ 87.0	$ 92.8

* The Net Cost of Services for fiscal year 2021 were not restated to show the effects of GASB 87 for comparative purposes because the adoption of GASB 87 does not affect the statement of activities.

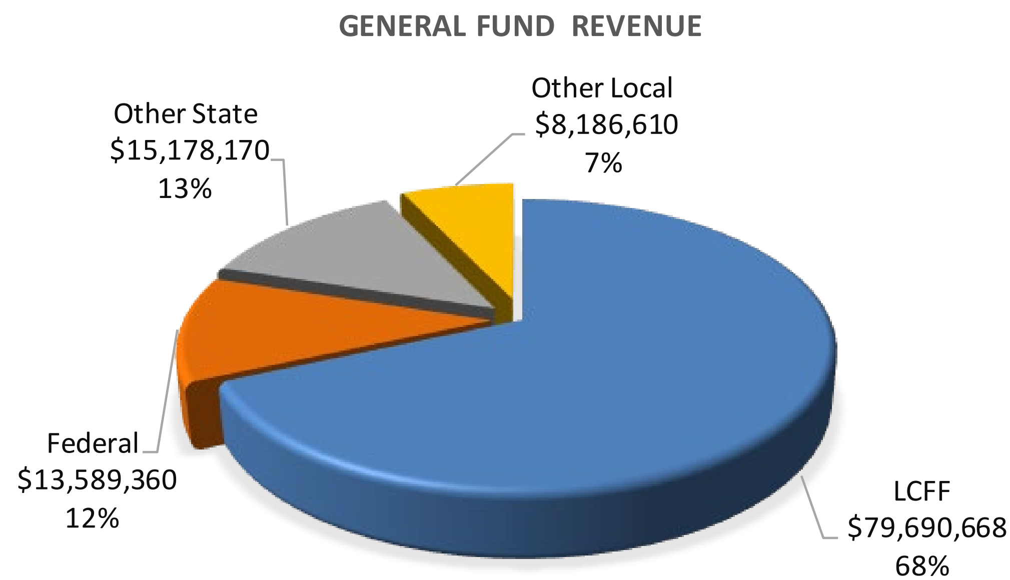
The District's Funds

As the District completed this year, our governmental funds reported a combined fund balance of $74.5 million, which was a decrease of $5.5 million from last year. The primary reason for the decrease is related to spending down various bond projects.

General Fund Budgetary Highlights

The Education Code requires that all local educational agencies adopt a budget by July 1, and then twice a year submit to their District Business Advisory Services in the County Offices of Education interim financial reports. The interim reports reflect updates to the District budget as grants are awarded and as the District revises its budget to reflect changes in revenues and expenditures. The final amendment to the budget was adopted in June 2021.

The District prepared the fiscal year 2021-2022 original adoption budget when the carryovers from fiscal year 2020-2021 were not known. The carryovers, however, were included in the fiscal year 2021-2022 final and thus the final budget was higher than the original adopted budget. The District's final budget is adjusted based on the estimated revenue and expenditures at the time of the fiscal year 2022-2023 adoption budget was prepared. At the end of the fiscal year, however, unspent revenues for some categorical programs will be deferred to the new fiscal year in accordance with generally accepted accounting principles and the requirements under the categorical programs. A schedule showing the District's original and final budget amounts compared with actual final amounts is provided in the required supplementary information, succeeding the financial statement section.

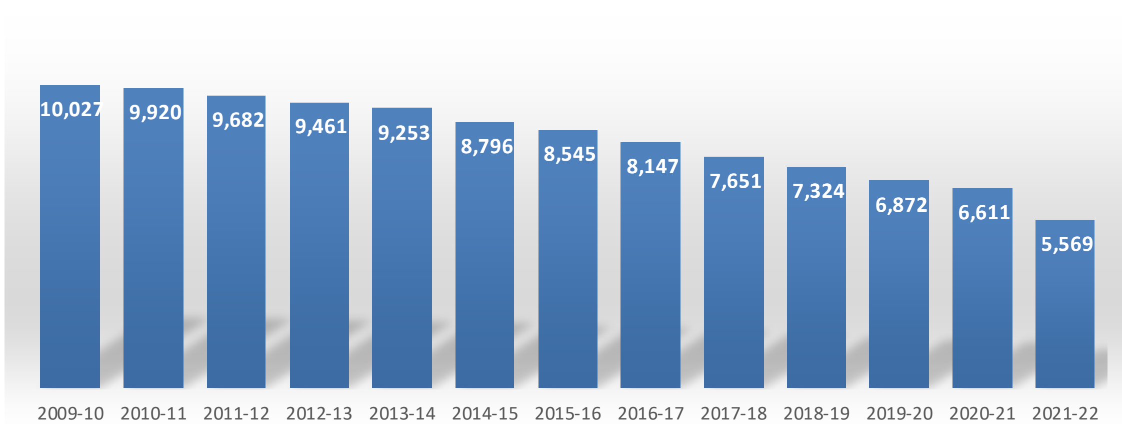


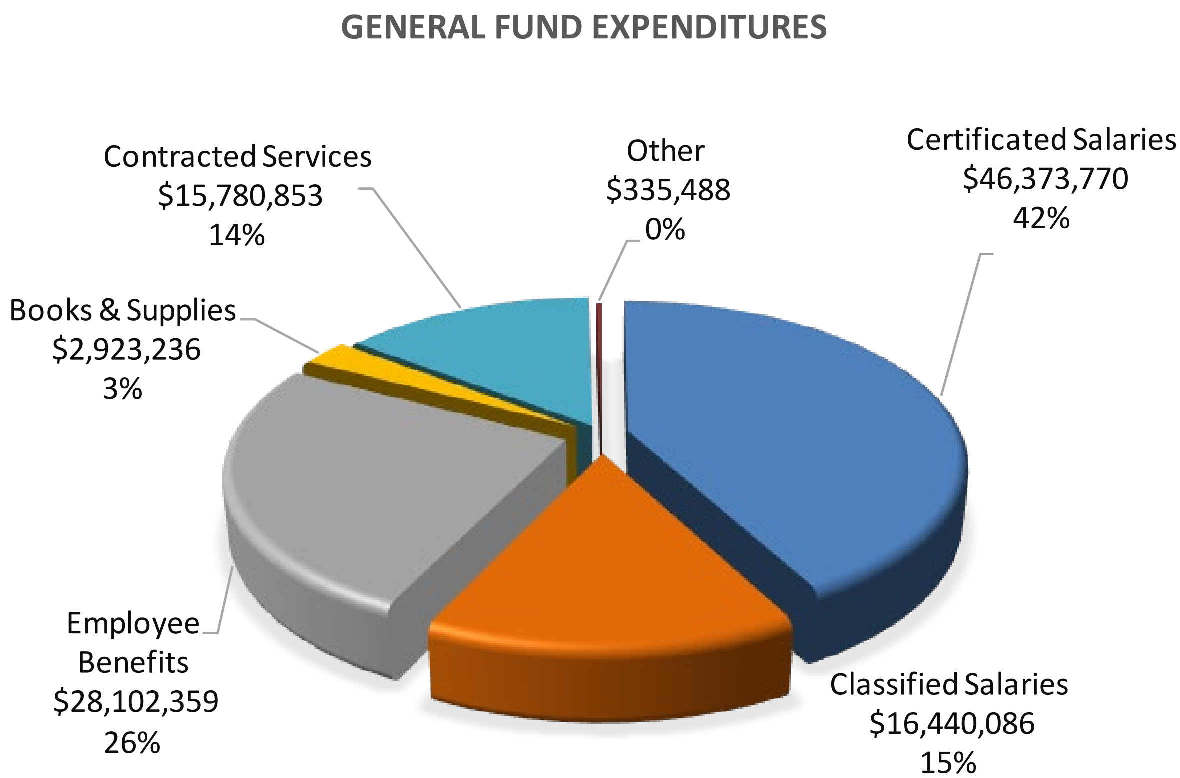
General
Fund Revenues

The General Fund is the operating fund of the District. Under the Local Control Funding Formula (LCFF), school districts received funding based on average daily attendance by grade level, and other demographic factors of the students (e.g., English Learner, eligible for free or reduced meal plans, etc.,). For fiscal year 2021-2022, the District received $116.6 million in total revenue from federal, state and local sources. State-controlled revenue (LCFF plus other state revenue) represents over 81% of the District's General Fund income. The following is a graphic presentation of revenues by source used to fund the District's operating activities:

Enrollment /ADA Trends

Average daily attendance (ADA) drives the amount of revenue received under the LCFF, as well as other State grants. Many school districts in Santa Clara County, including Franklin-McKinley, are experiencing declining enrollment in the recent years. Rising housing prices and lower birth rates are two of the various factors driving declining enrollment within the Bay Area. Enrollment is projected to decline at a steady rate of roughly 4% per year.





General Fund Expenditures

The largest components of the District's expenditures were salaries and benefits of teachers and support personnel. In fiscal year 2021-2022, the salaries and related benefits totaled $90.9 million, which accounted for 83% of the total expenditures of $110 million for the General Fund.

Capital Asset and Debt Administration

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2022, the District had $182.1 million in capital assets, representing a net increase of $0.5 million over $181.6 million in 2021.

Table 4

(Amounts in millions)	Governmental 2022	Governmental 2021
Capital Assets		
Land	$ 1.6	$ 1.6
Construction in progress	45.6	35.7
Buildings and improvements	240.4	239.4
Furniture and equipment	10.6	10.1
Total assets	298.2	286.8
Accumulated Depreciation		
Buildings and improvements	(110.4)	(100.1)
Furniture and equipment	(5.7)	(5.1)
Total accumulated depreciation	(116.1)	(105.2)
Net Capital Assets		
Land	1.6	1.6
Construction in progress	45.6	35.7
Buildings and improvements	130.0	139.3
Furniture and equipment	4.9	5.0
Totals	$ 182.1	$ 181.6

Some of the highlights of this year's construction program include:

Completed during 2021-22:

- Exterior painting at all schools except those recently modernized (i.e., Windmill, Lairon, and Franklin).
- Under Solar Canopy Beautification at Shirakawa and Stonegate.
- Addition and upgrade of outdoor learning and eating areas
- HVAC upgrades district-wide to improve air quality
- Network infrastructure upgrade (i.e., expansion of wireless access points and related cabling) to support 1 to 1 devices to student ratio and distance learning
- General site improvements (i.e., landscaping, turf/fields, parking lot and blacktop resurfacing, etc.)
- Sylvandale window, interior gates update, perimeter fencing, turf installation, and parking lot replacement
- Installation of kindergarten shade structures district-wide
- Stonegate HVAC replacement, roofing upgrades, and installation of skylights
- Stonegate and Shirakawa AC playground replacement
- Installation of new classroom wing and restrooms at Windmill as well as onsite portable relocation
- Phase 1 installation of integrated projectors and screens in various classrooms districtwide
- Phase 1 addition of security cameras district-wide
- Installation of speedbumps at all sites.
- Kennedy Temporary Admin Relocation - Electrical and Low Voltage
- Shirakawa Kitchen Flooring Replacement
- Roof Repair at Shirakawa, Franklin, Meadows, Ramblewood, and Hellyer

Construction in Progress during 2021-2022:

- Lairon Perimeter Fencing and a New Marquee Installation
- Installation of solar canopies at Franklin and Santee
- Pour in place fall protection district-wide at play structures
- Modernization of Meadows Front Office to better control the entrance and exit of people

- Playground asphalt replacement at Shirakawa, McKinley, Santee, and Dahl
- Restroom upgrades at Dahl
- Addition of playground shade structures at Dahl
- Installation of new perimeter fencing at Stonegate
- Disposal of portables in white yard fleet
- Increase internet bandwidth with AT&T
- Upgrade security solutions districtwide to add push-button security
- Kennedy Admin Office (Partial Renovation)
- Kennedy Site Improvements (Beautification)
- District Office Renovation (Ed Services & Enrollment Center).

Refer to Capital Assets Note 4 in the financial statements.

Long-Term Obligations

At the end of this year, the District had $239.1 million in outstanding long-term liabilities versus $297.0 million last year, a decrease of $57.9 million.

The District's long-term obligations include compensated absences payable, general obligation bonds, certificates of participation, retiree health care benefit, finance purchase, early retirement incentive and pension liabilities.

We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

Table 5

	Governmental	
(Amounts in millions)	**2022**	**2021**
General obligation bonds	$ 152.5	$ 158.4
Accretion to date	8.1	7.3
Finance Purchase	12.0	12.7
Bond premium	6.7	7.5
Certificates of participation	-	-
Retiree health care benefit	1.3	1.5
Accumulated vacation - net	0.5	0.7
Pension liabilities	57.5	107.8
Early retirement incentive	0.5	1.1
Totals	$ 239.1	$ 297.0

Net Pension Liability (NPL)

GASB Statements No. 68 and No. 71 introduce requirements for accrual-basis recognition by state and local governments of employer costs and obligations for pensions. Under the accounting standards, if the present value of benefits earned by all employees participating in the CalSTRS or CalPERS pension plan exceeds the resources accumulated by the pension plan to benefits, LEAs must now report in their government wide financial statements their proportionate share of the plan's net pension liability. See Note 13 for more detailed information. At year-end, the District has a net pension liability of $57.5 million versus $107.8 million last year, a decrease of $50.3 million, or 46.7%.

Economic Factors and Next Year's Budget

The majority of the District's unrestricted general fund revenues are derived from State and Local income sources through state aid, property taxes, and other state funding as well as one-time funds received under the CARES Act and other Federal assistance programs enacted due to the pandemic. The District has been on a steady course of continuous improvement in academic achievement, closing the achievement gap, improving its facilities, and meeting the priorities of the School Board and community. It is imperative that the District continue this course of success. One of the major components of State funding is the Local Control Funding Formula (LCFF). At this point, the LCFF is fully implemented financially. Achieving this full implementation of LCFF means growth in funding in the future years will be closely tied to COLA which is projected to be 6.56%, 8.13% and 3.54% for 2022-23, 2023-24 and 2024-25, respectively. There is concern due to the slowdown of the economy that the State will not be able to fully fund a COLA increase the LCFF. FMSD administration does have adequate reserves to offset a modest loss of in COLA funding to avoid disrupting classroom supports in the short term.

As of June 2022, LCFF represents approximately 68% of the total revenue the district expects to receive for fiscal year 2021-22. In addition to a COLA of 6.56% for this coming year, the State had an additional LCFF investment of $2.1 billion Statewide which equated to another 6% increase under LCFF. This allows the district more flexibility to manage the longer lasting impacts of the pandemic, rising operating costs due to inflation and other factors including but not limited to, additional focus on learning recovery, social and emotional needs of students and staff, increased contributions to the pension programs (i.e., CalSTRS and CalPERS), impacts of labor negotiations, and rising employer paid unemployment insurance to name a few.

One of the major components of LCFF calculation is enrollment. To help slow the enrollment decline in the future the District launched a Vietnamese dual immersion program during 2018-2019 and opened a Spanish dual immersion program in 2020-2021. We have received a lot of positive community feedback from these programs and will continue to monitor the positive impact such programs have on our students, community, and District.

The district is also utilizing new ongoing Expanded Learning Opportunities Program funding to expand the learning day to 9 hours and provide free learning camps during extend breaks such as Winter Break, Spring Break, and Summer Break. To expand the learning day to 9 hours the district will offer before and after school care that incorporates learning opportunities for our students. These before and after school opportunities include, free tutoring, art and music enrichment, sports, team building, homework labs, and others.

The district also expects to receive $10.9M in Learning Recovery Emergency Block Grant Funds. These are one-time funds that may be used through the 2027-28 school year that, at a minimum, support academic learning recovery and staff and pupil social and emotional well-being. They can also be used for but not limited to, extended learning time, accelerating progress to close learning gaps, integrated pupil supports, and early intervention and literacy programs for pupils in preschool to grade 3.

The upcoming years will be challenging as the community and the school district make its way out of the pandemic and embark on a new normal in which COVID response is part of every day life. However both the federal and state funding has really helped the District provide meaningful support to staff and students and the surround community.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Jason Vann, Assistant Superintendent, Business Services, or Esabel Corrie, Director of Fiscal Services, Franklin-McKinley School District, at 645 Wool Creek Dr., San Jose, CA 95112.

	Governmental Activities
Assets	
Deposits and investments	$ 79,920,165
Receivables	6,530,545
Prepaid expense	829,536
Stores inventories	174,078
Other current assets	320,503
Leases receivable	5,411,381
Capital assets not depreciated	47,181,351
Capital assets, net of accumulated depreciation	134,891,939
Total assets	275,259,498
Deferred Outflows of Resources	
Deferred charge on refunding	4,628,044
Deferred outflows of resources related to pensions	18,880,495
Total deferred outflows of resources	23,508,539
Liabilities	
Accounts payable	7,413,905
Interest payable	2,345,749
Unearned revenue	4,231,000
Long-term liabilities	
Long-term liabilities other than pensions	
Due within one year	9,367,113
Due in more than one year	172,210,012
Aggregage net pension liabilities, due in more than one year	57,469,412
Total liabilities	253,037,191
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	47,699,740
Deferred inflows of resources related to leases	5,289,336
Total deferred inflows of resources	52,989,076
Net (Deficit) Position	
Net investment in capital assets	36,568,680
Restricted for	
Debt service	485,200
Capital projects	7,880,872
Educational programs	8,907,760
Food Services	2,530,852
Self Insurance programs	1,507,173
Unrestricted (deficit)	(65,138,767)
Total net position (deficit)	$ (7,258,230)

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	$ 68,711,807	$ 3,428	$ 18,279,608	$ (50,428,771)
Instruction-related activities				
Supervision of instruction	997,118	86	535,674	(461,358)
Instructional library, media, and technology	950,665	-	316,823	(633,842)
School site administration	9,373,495	932	1,631,713	(7,740,850)
Pupil services				
Home-to-school transportation	2,803,388	1	106,922	(2,696,465)
Food services	5,233,142	56	6,261,042	1,027,956
All other pupil services	4,500,228	1,073	(729,430)	(5,228,585)
Administration				
Data processing	2,258,767	-	355,139	(1,903,628)
All other administration	4,583,329	-	1,205,012	(3,378,317)
Plant services	11,634,564	1	1,266,719	(10,367,844)
Ancillary services	249,840	-	264,112	14,272
Interest on long-term liabilities	6,937,168	-	-	(6,937,168)
Other outgo	30,000	27,191	1,702,340	1,699,531
Total governmental activities	$ 118,263,511	$ 32,768	$ 31,195,674	(87,035,069)
General Revenues and Subventions				
Property taxes, levied for general purposes				28,092,604
Property taxes, levied for debt service				12,458,663
Taxes levied for other specific purposes				2,862,998
Federal and State aid not restricted to specific purposes				52,872,281
Interest and investment earnings				(2,029,040)
Interagency revenues				3,281
Miscellaneous				5,633,287
Subtotal, general revenues and subventions				99,894,074
Change in Net Position (Deficit)				12,859,005
Net Position (Deficit) - Beginning				(20,117,235)
Net Position (Deficit) - Ending				$ (7,258,230)

	General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets						
Deposits and investments	$ 35,152,285	$ 1,912,208	$ 22,621,280	$ 10,875,198	$ 8,104,421	$ 78,665,392
Receivables	5,274,779	1,154,275	62,969	15,825	19,833	6,527,681
Due from other funds	252,600	-	-	-	-	252,600
Prepaid expenditures	614,816	2,000	-	-	-	616,816
Stores inventories	-	174,078	-	-	-	174,078
Leases receivable	5,411,381	-	-	-	-	5,411,381
Total assets	$ 46,705,861	$ 3,242,561	$ 22,684,249	$ 10,891,023	$ 8,124,254	$ 91,647,948
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
Accounts payable	$ 5,232,185	$ 459,109	$ 1,714,432	$ -	$ 8,179	$ 7,413,905
Due to other funds	6,491	252,600	-	-	-	259,091
Unearned revenue	4,229,264	-	-	-	1,736	4,231,000
Total liabilities	9,467,940	711,709	1,714,432	-	9,915	11,903,996
Deferred Inflows of Resources						
Deferred inflows of resources related to leases	5,289,336	-	-	-	-	5,289,336
Fund Balances						
Nonspendable	761,861	176,078	-	-	-	937,939
Restricted	8,674,293	2,354,774	20,969,817	10,891,023	8,114,339	51,004,246
Committed	8,028,730	-	-	-	-	8,028,730
Assigned	2,199,115	-	-	-	-	2,199,115
Unassigned	12,284,586	-	-	-	-	12,284,586
Total fund balances	31,948,585	2,530,852	20,969,817	10,891,023	8,114,339	74,454,616
Total liabilities, deferred inflows of resources, and fund balances	$ 46,705,861	$ 3,242,561	$ 22,684,249	$ 10,891,023	$ 8,124,254	$ 91,647,948

Total Fund Balance - Governmental Funds		$ 74,454,616
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	$ 298,158,167	
Accumulated depreciation is	(116,084,877)	
Net capital assets		182,073,290
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(2,345,749)
An internal service fund is used by management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities in the statement of net position.		1,507,173
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings (deferred charge on refunding)		4,628,044
Expenditures relating to prepaid insurance on bond issuances 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 prepaid expenses.		202,720
Net pension liability and related deferrals are not due and payable in the current period, and is not reported as a liability in the funds.		(86,288,657)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
General obligation bonds	(152,454,804)	
Unamortized debt premiums	(6,677,862)	
Leases	(11,969,805)	
Compensated absences (vacations)	(541,272)	
Early retirement incentives	(505,132)	
Post employment benefits	(1,280,718)	
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	(8,060,074)	
Total long-term liabilities		(181,489,667)
Total net position (deficit) - governmental activities		$ (7,258,230)

	General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Local control funding formula	$ 79,690,668	$ -	$ -	$ -	$ -	$ 79,690,668
Federal sources	13,589,360	6,030,996	-	-	-	19,620,356
Other State sources	15,178,170	339,730	-	60,729	-	15,578,629
Other local sources	8,186,610	(73,516)	(496,821)	12,345,538	587,072	20,548,883
Total revenues	116,644,808	6,297,210	(496,821)	12,406,267	587,072	135,438,536
Expenditures						
Current						
Instruction	73,103,871	-	-	-	-	73,103,871
Instruction-related activities						
Supervision of instruction	973,243	-	-	-	-	973,243
Instructional library, media, and technology	937,883	-	-	-	-	937,883
School site administration	9,446,634	-	-	-	-	9,446,634
Pupil services						
Home-to-school transportation	2,680,335	-	-	-	-	2,680,335
Food services	18,846	4,965,794	-	-	-	4,984,640
All other pupil services	4,567,295	-	-	-	-	4,567,295
Administration						
Data processing	2,215,321	-	-	-	-	2,215,321
All other administration	5,175,140	252,599	-	-	-	5,427,739
Plant services	10,534,018	-	-	-	-	10,534,018
Ancillary services	-	-	-	-	249,840	249,840
Other outgo	30,000	-	-	-	-	30,000
Capital outlay	-	-	11,955,014	-	17,840	11,972,854
Debt service						
Principal	258,576	-	475,000	15,425,000	-	16,158,576
Interest and other	14,630	-	470,559	6,211,586	-	6,696,775
Total expenditures	109,955,792	5,218,393	12,900,573	21,636,586	267,680	149,979,024
Excess (Deficiency) of Revenues Over Expenditures	6,689,016	1,078,817	(13,397,394)	(9,230,319)	319,392	(14,540,488)
Other Financing Sources (Uses)						
Proceeds from sales of bonds	-	-	-	9,083,000	-	9,083,000
Net Change in Fund Balances	6,689,016	1,078,817	(13,397,394)	(147,319)	319,392	(5,457,488)
Fund Balance - Beginning	25,259,569	1,452,035	34,367,211	11,038,342	7,794,947	79,912,104
Fund Balance - Ending	$ 31,948,585	$ 2,530,852	$ 20,969,817	$ 10,891,023	$ 8,114,339	$ 74,454,616

Total Net Change in Fund Balances - Governmental Funds		$ (5,457,488)
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 in the Statement of Activities.		
This is the amount by which capital outlays exceed depreciation expenses in the period.		
Depreciation expenses	$ (10,895,865)	
Capital outlays	11,343,530	
Net expense adjustment		447,665
The District issued capital appreciation general obligations bonds. The accretion of interest on the general obligation bonds during the current fiscal year was:		(1,124,460)
Supplement employee retirement incentive is not current resources, therefore is not recorded in the governmental funds. However, the amount is recognized in the government wide financial statement as liability. The annual payment of the obligations was expensed in the governmental funds but it reduces the liability in the government-wide statement of net position and does not impact the statement of activities. During the year, amounts incurred was more than amounts paid.		615,493
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.		178,802
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.		10,010,865

Proceeds received from General obligation bonds is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	(9,083,000)
Governmental funds report the effect of premiums, prepaid insurance on refunding, and the deferred charge on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Prepaid insurance on refunding amortization	(13,863)
Premium amortization	827,172
Deferred charge on refunding amortization	(129,891)
Payment of principal on long-term-liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
General obligation bonds	15,425,000
Finance purchase	733,576
Payment of retiree benefits are an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	88,683
Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accretes or accrues, regardless of when it is due.	200,649
An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	139,802
Change in net position (deficit) of governmental activities	$ 12,859,005

	Governmental Activities - Internal Service Fund
Assets	
Current assets	
Deposits and investments	$ 1,254,773
Receivables	2,864
Due from other funds	6,491
Prepaid expenses	10,000
Other current assets	320,503
Total assets	1,594,631
Liabilities	
Current liabilities	
Claim liabilities	87,458
Total liabilities	87,458
Net Position	
Restricted for self insurance	1,507,173
Total net position	$ 1,507,173

	Governmental Activities - Internal Service Fund
Operating Revenues	
In-District contribution	$ 1,377,158
Operating Expenses	
Insurance and other	1,209,544
Operating Income	167,614
Nonoperating Revenues	
Unrealized gain due to fair market value adjustment	(36,269)
Interest income	8,457
Total nonoperating revenues	(27,812)
Change in Net Position	139,802
Total Net Position - Beginning	1,367,371
Total Net Position - Ending	$ 1,507,173

	Governmental Activities - Internal Service Fund
Operating Activities	
Cash receipts from user charges	$ 1,375,714
Cash payments for insurance claims	(1,121,016)
Net Cash From Operating Activities	254,698
Investing Activities	
Interest on investments	7,215
Unrealized gain on investments	(36,269)
Net Cash used for Investing Activities	(29,054)
Net Change in Cash and Cash Equivalents	225,644
Cash and Cash Equivalents, Beginning	1,029,129
Cash and Cash Equivalents, Ending	$ 1,254,773
Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating income	$ 167,614
Changes in assets and liabilities	
Receivables	
Due from other fund	(1,444)
Other current asset	80,524
Accrued liabilities	8,004
Net Cash From Operating Activities	$ 254,698

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Franklin-McKinley School District was organized in January 1948 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades kindergarten - eighth as mandated by the State and Federal agencies. The District operates 14 elementary schools and three middle schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Franklin-McKinley School District, 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 less liabilities and deferred inflows of resources 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.

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). The District elected to present the fund as a major fund.

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

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

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. A special revenue fund, Cafeteria Fund, is reported under major governmental funds in the previous page.

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

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). A capital project fund, Building Fund, is reported under major governmental funds in the previous page.

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

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term liabilities. The District has only one debt service fund, Bond Interest and Redemption Fund, that is reported under major governmental funds in the previous page.

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has one proprietary fund below:

- **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 dental and vision program that is accounted for in an internal service fund.

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 for each governmental function. 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. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

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

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental funds and expenses in the proprietary funds when consumed rather than when purchased.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $10,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

The District records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2022.

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' columns of the statement of net position.

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. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Liabilities

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

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the period the bonds are issued. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the period the bonds are issued.

Deferred Outflows/Inflows of Resources

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

Pensions

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

Leases

The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements. At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Fund Balances - Governmental Funds

As of June 30, 2022, 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 officer/assistant superintendent of business services 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 on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 5 percent of General Fund expenditures and other financing uses.

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

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 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 Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

Implementation of GASB Statement No. 87

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard 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 effect of the implementation of this standard on beginning net position and fund balance is disclosed in Note 16 and the additional disclosures required by this standard is included in Note 5.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2022, are classified in the accompanying financial statements as follows:

Governmental funds	$ 78,665,392
Proprietary funds	1,254,773
Total deposits and investments	$ 79,920,165

Deposits and investments as of June 30, 2022, consist of the following:

Cash on hand and in banks	$ 246,789
Cash in revolving	25,000
Investments	79,648,376
Total deposits and investments	$ 79,920,165

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. The pool is not registered with Stock Exchange Commission.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool. The fair value of the investment with the County Treasurer at June 30, 2022 was $79,648,376 and the weighted average maturity of the pool was 738 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated, nor they have been rated as of June 30, 2022.

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. 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, 2022, the District has no significant custodial credit risk.

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 inputs – quoted prices in active markets for identical assets.
- Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

As of June 30, 2022, the District's investments in the Santa Clara County Treasury Investment Pool and State Investment Pools are uncategorized.

Note 3 - Receivables Other than Lease Receivables

Receivables, other than lease receivables, at June 30, 2022, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government							
Categorical aid	$ 3,784,961	$ 1,085,516	$ -	$ -	$ -	$ 4,870,477	$ -
State Government							
Categorical aid	792,608	64,707	-	-	-	857,315	-
Lottery	24,357	-	-	-	-	24,357	-
Local Government							-
Interest	169,520	4,052	62,969	15,825	19,828	272,194	2,864
Other local sources	503,333	-	-	-	5	503,338	-
Total	$ 5,274,779	$ 1,154,275	$ 62,969	$ 15,825	$ 19,833	$ 6,527,681	$ 2,864

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Balance July 01, 2021	Additions	Deductions	Balance June 30, 2022
Governmental Activities				
Capital assets not being depreciated				
Land	$ 1,565,500	$ -	$ -	$ 1,565,500
Construction in progress	35,680,615	10,467,628	(532,392)	45,615,851
Total capital assets not being depreciated	37,246,115	10,467,628	(532,392)	47,181,351
Capital assets being depreciated				
Buildings and improvements	239,413,040	1,376,012	-	240,789,052
Furniture and equipment	10,155,482	32,282	-	10,187,764
Total capital assets being depreciated	249,568,522	1,408,294	-	250,976,816
Total capital assets	286,814,637	11,875,922	(532,392)	298,158,167
Accumulated depreciation				
Buildings and improvements	(100,128,714)	(10,228,976)	-	(110,357,690)
Furniture and equipment	(5,060,298)	(666,889)	-	(5,727,187)
Total accumulated depreciation	(105,189,012)	(10,895,865)	-	(116,084,877)
Governmental activities Capital assets, net	$ 181,625,625	$ 980,057	$ (532,392)	$ 182,073,290

Depreciation expenses were charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	$ 6,931,015
Supervision of instruction	92,274
Instructional library, media, and technology	88,921
School site administration	895,640
Home-to-school transportation	254,124
Food services	472,596
All other pupil services	433,028
Data processing	210,036
All other administration	519,495
Plant services	998,736
Total depreciation expenses governmental activities	$ 10,895,865

Note 5 - Lease Receivables

Lease receivables are recorded by the District as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the District charges the lessee. The District has accrued a receivable for leasing a portion of its facilities to various lessees. These leases are non-cancelable for periods more than one year. During the fiscal year, the District recognized $403,550 in lease revenue and $264,687 in interest revenue related to these agreements. As of June 30, 2022, the District recorded $5,411,381 in leases receivable and $5,289,336 in deferred inflows of resources for these arrangements. The interest rate on these leases is 4.75%.

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. Interfund receivable and payable balances at June 30, 2022, between major and non-major governmental funds are as follows:

	Due From		
Due To	General Fund	Proprietary Funds	Total
General Fund	$ -	$ 6,491	$ 6,491
Cafeteria Fund	252,600	-	252,600
Total	$ 252,600	$ 6,491	$ 259,091

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note 7 - Deferred Outflows of Resources on Refunding

Deferred outflows of resources are a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of $36,568,680 includes the effect of deferring the recognition of loss from advance refunding. The $4,628,044 balance of the deferred outflow of resources on refunding at June 30, 2022 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. During the year, the District recognized $129,891.

Note 8 - Accounts Payable

Accounts payable at June 30, 2022, consisted of the following:

	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 1,993,091	$ 447,139	$ 1,714,411	$ 8,158	$ 4,162,799
Salaries and benefits	1,876,478	11,970	21	21	1,888,490
Other	1,362,616	-	-	-	1,362,616
Total	$ 5,232,185	$ 459,109	$ 1,714,432	$ 8,179	$ 7,413,905

Note 9 - Unearned Revenue

Unearned revenue at June 30, 2022, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	$ 1,431,467	$ -	$ 1,431,467
State categorical aid	262,666	-	262,666
Other local	2,535,131	1,736	2,536,867
Total	$ 4,229,264	$ 1,736	$ 4,231,000

Note 10 - Long-Term Liabilities Other than Pensions

Summary

The changes in the District's long-term liabilities other than pensions during the year consisted of the following:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Due in One Year
Long-Term Liabilities					
General obligation bonds	$ 165,732,418	$ 10,207,460	$ (15,425,000)	$ 160,514,878	$ 7,729,000
Unamortized debt premiums	7,505,034	-	(827,172)	6,677,862	430,007
Finance Purchases	12,703,381	-	(733,576)	11,969,805	535,000
Early retirement liabilities	1,120,625	-	(615,493)	505,132	252,566
Compensated absences	720,074	229,702	(408,504)	541,272	324,763
Retiree health care benefit	1,369,401	-	(88,683)	1,280,718	95,777
Claim liabilities	79,454	1,217,548	(1,209,544)	87,458	-
Total	$ 189,230,387	$ 11,654,710	$ (19,307,972)	$ 181,577,125	$ 9,367,113

The Bond Interest and Redemption Fund makes payments on the general obligation bonds with local property tax revenues. The accumulated vacation, postemployment benefits and early retirement incentive will be paid by the fund for which the employee worked. Finance purchases are paid by the General Fund.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2021	Issued	Interest Accreted	Redeemed	Refunded	Bonds Outstanding June 30, 2022
2006	2028	3.25-5.25%	$ 6,950,000	$ 6,445,000	$ -	$ -	$ (305,000)	$ -	$ 6,140,000
2011	2023	5.25-11.98	6,875,000	2,125,000	-	-	(1,000,000)	-	1,125,000
2011	2027	5.25-11.98	4,500,000	4,500,000	-	-	-	-	4,500,000
2012	2036	3.00-4.00%	15,000,000	7,350,000	-	-	(425,000)	(6,475,000)	450,000
2015	2025	3.00-5.00%	4,690,000	3,425,000	-	-	(725,000)	-	2,700,000
2015	2038	3.00-5.00%	4,835,000	4,390,000	-	-	(125,000)	(2,150,000)	2,115,000
2016	2038	3.00-5.00%	13,425,000	12,770,000	-	-	(120,000)	-	12,650,000
2017	2045	3.00-4.00%	25,000,000	19,565,000	-	-	-	-	19,565,000
2017	2036	2.00-4.00%	5,730,000	5,540,000	-	-	(255,000)	-	5,285,000
2018	2044	3.00-4.00%	30,000,000	28,850,000	-	-	-	-	28,850,000
2019	2041	3.00-4.00%	12,400,000	12,400,000	-	-	(950,000)	-	11,450,000
2020	2041	3.23-3.35%	16,540,000	16,540,000	-	-	-	-	16,540,000
2021	2040	4.00%	27,000,000	23,845,000	-	-	(1,645,000)	-	22,200,000
2022	2038	2.40%	6,703,000	-	6,703,000	-	-	-	6,703,000
2022	2039	3.50%	2,380,000	-	2,380,000	-	-	-	2,380,000
	Total current interest bonds			147,745,000	9,083,000	-	(5,550,000)	(8,625,000)	142,653,000
2002	2023	2.70-6.00%	$ 8,999,326	2,434,908	-	65,092	(1,250,000)	-	1,250,000
2011	2036	5.25-11.98	15,163,985	9,558,639	-	845,795	-	-	10,404,434
2020	2045	3.85%	5,602,032	5,993,871	-	213,573	-	-	6,207,444
	Total capital appreciation bonds			17,987,418	-	1,124,460	(1,250,000)	-	17,861,878
	Total bonded liabilities			$ 165,732,418	$ 9,083,000	$ 1,124,460	$ (6,800,000)	$ (8,625,000)	$ 160,514,878

Debt Service Requirements to Maturity

The capital appreciation bonds mature as follows:

Bonds Maturing Fiscal Year	Initial Bond Value	Accreted Interest	Accreted Obligation	Unaccreted Interest	Maturity Value
2023	$ 410,787	$ 839,213	$ 1,250,000	$ -	$ 1,250,000
2024	-	-	-	-	-
2025	-	-	-	-	-
2026	-	-	-	-	-
2027	152,388	407,383	559,771	340,229	900,000
2028-2032	1,021,727	2,731,415	3,753,142	3,871,858	7,625,000
2033-2037	2,614,870	3,476,651	6,091,521	8,408,479	14,500,000
2038-2042	2,004,058	216,106	2,220,164	2,556,284	4,776,448
2043-2047	3,597,974	389,306	3,987,280	5,062,488	9,049,768
Total	$ 9,801,804	$ 8,060,074	$ 17,861,878	$ 20,239,338	$ 38,101,216

The current interest bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2023	$ 6,479,000	$ 5,349,264	$ 11,828,264
2024	5,311,000	5,241,575	10,552,575
2025	5,054,000	5,013,749	10,067,749
2026	3,134,000	4,759,440	7,893,440
2027	8,071,000	4,459,934	12,530,934
2028-2032	20,424,000	19,401,982	39,825,982
2033-2037	27,410,000	15,256,955	42,666,955
2038-2042	41,400,000	9,417,031	50,817,031
2043-2047	19,935,000	2,874,000	22,809,000
2047-2050	5,435,000	445,800	5,880,800
Total	$ 142,653,000	$ 72,219,730	$ 214,872,730

Finance Purchases

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

	Solar	Bus	Apple	Enterprise	Total
Balance, July 1, 2021	$ 16,153,823	$ 228,352	$ 50,752	$ 66,004	$ 16,498,931
Payments	(939,559)	(156,450)	(50,752)	(66,004)	(1,212,765)
Balance, July 1, 2022	$ 15,214,264	$ 71,902	$ -	$ -	$ 15,286,166

The finance purchases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2023	$ 1,052,890
2024	1,030,049
2025	1,076,456
2026	1,125,210
2027	1,176,027
2028-2032	6,712,271
2033-2037	3,113,263
Total	15,286,166
Less amount representing interest	(3,316,361)
Present value of minimum lease payments	$ 11,969,805

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2022, amounted to $541,272.

Early Retirement Incentives

In 2021-2022, the District provided a Supplemental Early Retirement Incentives Program to eligible employees. The incentive payments through the end of the contract are as follows:

Year Ending June 30,	Incentive Payment
2023	$ 252,566
2024	252,566
Total	$ 505,132

Retiree Health Care Benefits

The district provides retiree health care benefits, in accordance with District employment contracts, to three employees. The District contributes 100 percent of the amount of premiums incurred by the retirees. Expenditures for the benefits are recognized on a pay-as-you-go basis, as retiree's premiums are paid. During the year, expenditures of $88,683 were recognized for retiree's health care benefits. The approximate accumulated future liability for the District at June 30, 2022, amounts to $1,280,718. This amount was calculated based upon the three retirees receiving benefits multiplied by the District payment in effect at June 30, 2022, multiplied by the number of years of payments remaining, with health care cost trend rate of 7%.

These health care benefits mature through 2035 as follows:

Year Ended June 30,	Payment
2023	$ 95,777
2024	103,439
2025	111,714
2026	80,341
2027	86,768
2028-2032	549,753
2033-2035	252,926
Total	$ 1,280,718

Note 11 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	$ 25,000	$ -	$ -	$ -	$ -	$ 25,000
Stores inventories	-	174,078	-	-	-	174,078
Prepaid expenditures	614,816	2,000	-	-	-	616,816
Leases	122,045					122,045
Total nonspendable	761,861	176,078	-	-	-	937,939
Restricted						
Educational programs	8,674,293	-	-	-	233,467	8,907,760
Food service	-	2,354,774	-	-	-	2,354,774
Capital projects	-	-	20,969,817	-	7,880,872	28,850,689
Debt services	-	-	-	10,891,023	-	10,891,023
Total restricted	8,674,293	2,354,774	20,969,817	10,891,023	8,114,339	51,004,246
Committed						
Mitigation measures	3,800,000	-	-	-	-	3,800,000
Technology refresh	1,953,000	-	-	-	-	1,953,000
Commitment of SERP	2,275,730	-	-	-	-	2,275,730
Total committed	8,028,730	-	-	-	-	8,028,730
Assigned						
Program carryover	2,199,115	-	-	-	-	2,199,115
Total assigned	2,199,115	-	-	-	-	2,199,115
Unassigned						
Reserve for economic uncertainties	3,298,674	-	-	-	-	3,298,674
Remaining unassigned	8,985,912	-	-	-	-	8,985,912
Total unassigned	12,284,586	-	-	-	-	12,284,586
Total	$ 31,948,585	$ 2,530,852	$ 20,969,817	$ 10,891,023	$ 8,114,339	$ 74,454,616

Note 12 - Risk Management

Property and Liability

The District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2022, the District contracted with Alliance of Schools for Cooperative Insurance Programs for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

The District participates in the Santa Clara County Schools Insurance Group (the JPA) public entity risk pool for workers' compensation, and property liability coverage.

Coverage provided by Santa Clara County Schools Insurance Group for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits	
Workers' Compensation Program			
Santa Clara County School Insurance Group	Workers' Compensation	$	1,000,000
Property and Liability Program			
Alliance of Schools for Cooperative Insurance Programs	General	$	5,000,000
	Automobile	$	5,000,000
	Property	$	600,000,000

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.

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, 2020 to June 30, 2022:

	Dental and Vision
Liability Balance, July 1, 2020	$ 63,830
Claims and changes in estimates	1,297,211
Claims payments	(1,281,587)
Liability Balance, June 30, 2021	79,454
Claims and changes in estimates	1,217,548
Claims payments	(1,209,544)
Liability Balance, June 30, 2022	$ 87,458
Assets available to pay claims at June 30, 2022	$ 1,594,631

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, 2022, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 34,552,617	$ 13,611,097	$ 37,536,384	$ 111,929
CalPERS	22,916,795	5,269,398	10,163,356	1,927,324
Total	$ 57,469,412	$ 18,880,495	$ 47,699,740	$ 2,039,253

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, 2020, 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, 2022, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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%	10.205%
Required employer contribution rate	16.92%	16.92%
Required state contribution rate	10.828%	10.828%

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, 2022, are presented above and the District's total contributions were $7,921,006.

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

At June 30, 2022, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	$ 34,552,617
State's proportionate share of the net pension liability	17,385,537
Total	$ 51,938,154

The net pension liability was measured as of June 30, 2021. 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, 2021 and June 30, 2020, respectively was 0.0759 percent and 0.0763 percent, resulting in a net decrease in the proportionate share of 0.0004 percent.

For the year ended June 30, 2022, the District recognized pension expense of $111,929. In addition, the District recognized pension expense and revenue of $594,825 for support provided by the State. At June 30, 2022, 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	$ 7,921,006	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	707,796	6,527,256
Differences between projected and actual earnings on pension plan investments	-	27,332,010
Differences between expected and actual experience in the measurement of the total pension liability	86,556	3,677,118
Changes of assumptions	4,895,739	-
Total	$ 13,611,097	$ 37,536,384

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	$ (6,940,691)
2024	(6,348,466)
2025	(6,506,012)
2026	(7,536,841)
Total	$ (27,332,010)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period.

The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	$ (314,457)
2024	211,452
2025	(1,268,207)
2026	(1,493,512)
2027	(1,105,013)
Thereafter	(544,546)
Total	$ (4,514,283)

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Experience study	July 1, 2015 through June 30, 2018
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions.

Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2021, are summarized in the following table:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 70,336,762
Current discount rate (7.10%)	34,552,617
1% increase (8.10%)	4,852,461

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, 2020 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, 2022, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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%	7.00%
Required employer contribution rate	22.91%	22.91%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2022, are presented above and the total District contributions were $4,129,113.

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

As of June 30, 2022, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $22,916,795. The net pension liability was measured as of June 30, 2021. 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, 2021 and June 30, 2020, respectively was 0.1127 percent and 0.1106 percent, resulting in a net increase in the proportionate share of 0.0021 percent.

For the year ended June 30, 2022, the District recognized pension expense of $1,927,324. At June 30, 2022, 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	$ 4,129,113	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	456,160	1,314,549
Differences between projected and actual earnings on pension plan investments	-	8,794,783
Differences between expected and actual experience in the measurement of the total pension liability	684,125	54,024
Total	$ 5,269,398	$ 10,163,356

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	$ (2,205,723)
2024	(2,028,360)
2025	(2,114,699)
2026	(2,446,001)
Total	$ (8,794,783)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2023	$ (27,135)
2024	(298,058)
2025	83,935
2026	12,970
Total	$ (228,288)

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 38,640,934
Current discount rate (7.15%)	22,916,795
1% increase (8.15%)	9,862,386

Social Security

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

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 $4,883,032 (10.828 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, 2022.

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, 2022.

Construction Commitments

As of June 30, 2022, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Accessibility Improvements	$ 6,649	06/30/23
Campus Exterior Painting	110,900	01/01/23
Exterior Wifi & Safety Upgrade	31,355	06/30/23
Front Office Modernization	1,576,936	01/01/23
Furniture Upgrades	7,937	10/31/22
General Emergency	641,887	09/01/22
General Site Improvements	558,043	06/30/23
HVAC System Modernization - Stonegate	15,800	06/30/23
Modernization	320,513	11/30/22
Network Infrastructure	1,948,293	06/30/23
New Construction	876,109	06/30/24
Parking/Blacktop Resurface Replacement	3,392,928	11/30/22
Security Fencing/Gate/Tree Svc	1,912,270	06/30/23
Solar Array Installation	4,830,967	11/30/22
Undersolar Beauty/Field Improvement	72,570	06/30/23
Total	$ 16,303,157	

Note 15 - Participation in Public Entity Risk Pools, Joint Powers Authorities and Other Related Party Transactions

The District is a member of the Santa Clara County Schools Insurance Group (SCCSIG) public entity risk pool and the East Valley Transportation (EVT) joint powers authority (JPA). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage and to provide transportation services for special education students. The relationships between the District, the pool, and the JPA 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. The District has appointed one board member to the Governing Board of each of these two authorities. During the year ended June 30, 2022, the District made payments of $717,606 and $894,861 to SCCSIG and EVT, respectively. Audited financial statements are generally available from the respective entities.

Note 16 - Restatement of Prior Year Net Position (Deficit) and Fund Balance

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard requires recognition of lease receivables for leases that previously were classified as operating leases and recognized as inflows of resources based on the payment provisions of the contract. Beginning net position and fund balance was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

Governmental Activities	
Beginning net position (deficit) governmental activities	
Previously reported at June 30, 2021	$ (20,117,235)
Recognition of leases receivable	5,661,316
Recognition of deferred inflows of resources related to leases	(5,661,316)
Net Position (deficit) - Beginning as Restated	$ (20,117,235)
General Fund	
Beginning fund balance previously reported at June 30, 2021	$ 25,259,569
Recognition of leases receivable	5,661,316
Recognition of deferred inflows of resources related to leases	(5,661,316)
Fund Balance - Beginning as Restated	$ 25,259,569

Required Supplementary Information
June 30, 2022

Franklin-McKinley School District

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Local control funding formula	$76,449,019	$78,887,459	$ 79,690,668	$ 803,209
Federal sources	4,737,310	15,425,753	13,589,360	(1,836,393)
Other State sources	9,253,669	10,744,715	15,178,170	4,433,455
Other local sources	5,588,317	8,693,689	8,186,610	(507,079)
Total revenues	96,028,315	113,751,616	116,644,808	2,893,192
Expenditures				
Current				
Certificated salaries	45,061,843	44,155,047	46,373,770	(2,218,723)
Classified salaries	15,883,525	16,380,795	16,440,086	(59,291)
Employee benefits	28,585,829	28,119,530	28,102,359	17,171
Books and supplies	1,985,121	4,688,476	2,923,236	1,765,240
Services and operating expenditures	10,249,112	17,296,076	15,780,853	1,515,223
Other outgo	742,720	987,465	30,000	957,465
Capital outlay	-	5,055	32,282	(27,227)
Debt service				
Debt service - principal	260,000	260,000	258,576	1,424
Debt service - interest and other	15,000	15,000	14,630	370
Total expenditures	102,783,150	111,907,444	109,955,792	1,951,652
Net Change in Fund Balances	(6,754,835)	1,844,172	6,689,016	4,844,844
Fund Balance - Beginning	25,259,569	25,259,569	25,259,569	-
Fund Balance - Ending	$ 18,504,734	$ 27,103,741	$ 31,948,585	$ 4,844,844

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Federal sources	$ 4,662,812	$ 5,572,674	$ 6,030,996	$ 458,322
Other State sources	299,740	314,615	339,730	25,115
Other local sources	619,293	1,000	(73,516)	(74,516)
Total revenues	5,581,845	5,888,289	6,297,210	408,921
Expenditures				
Current				
Classified salaries	1,870,234	1,841,405	1,744,508	96,897
Employee benefits	1,058,728	1,007,989	925,328	82,661
Books and supplies	1,811,659	1,825,659	1,967,963	(142,304)
Services and operating expenditures	293,461	305,961	327,994	(22,033)
Other outgo	275,867	151,210	252,600	(101,390)
Total expenditures	5,309,949	5,132,224	5,218,393	(86,169)
Net Change in Fund Balances	271,896	756,065	1,078,817	322,752
Fund Balance - Beginning	1,452,035	1,452,035	1,452,035	-
Fund Balance - Ending	$ 1,723,931	$ 2,208,100	$ 2,530,852	$ 322,752

	2022	2021	2020	2019	2018	2017	2016
CalSTRS							
Proportion of the net pension liability	0.0759%	0.0763%	0.0804%	0.0819%	0.0798%	0.0865%	0.0903%
Proportionate share of the net pension liability	$ 34,552,617	$73,896,776	$ 72,657,286	$ 75,271,657	$ 73,809,593	$ 69,978,477	$ 60,773,479
State's proportionate share of the net pension liability	17,385,537	38,093,797	39,639,400	43,096,544	43,665,132	39,837,499	32,142,471
Total	$ 51,938,154	$ 111,990,573	$ 112,296,686	$ 118,368,201	$ 117,474,725	$ 109,815,976	$ 92,915,950
Covered payroll	$ 43,233,912	$ 41,183,152	$ 42,480,049	$ 44,466,854	$ 43,205,461	$ 43,450,466	$ 41,816,982
Proportionate share of the net pension liability as a percentage of its covered payroll	80%	179%	171%	169%	171%	161%	145%
Plan fiduciary net position as a percentage of the total pension liability	87%	72%	73%	71%	69%	70%	74%
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
CalPERS							
Proportion of the net pension liability	0.0000%	0.1106%	0.1159%	0.1175%	0.1167%	0.1136%	0.1133%
Proportionate share of the net pension liability	$ 22,916,795	$ 33,928,263	$ 33,787,756	$ 31,326,020	$ 27,867,689	$ 22,244,660	$ 16,698,379
Covered payroll	$ 16,233,820	$ 15,929,147	$ 16,060,453	$ 15,501,706	$ 14,866,741	$ 13,631,848	$ 12,189,415
Proportionate share of the net pension liability as a percentage of its covered payroll	141%	213%	210%	202%	187%	163%	137%
Plan fiduciary net position as a percentage of the total pension liability	81%	70%	70%	71%	72%	74%	79%
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015

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

	2022	2021	2020	2019	2018	2017	2016
CalSTRS							
Contractually required contribution	$ 7,921,006	$ 6,822,464	$ 7,042,319	$ 6,915,752	$ 6,416,567	$ 5,435,247	$ 4,662,235
Less contributions in relation to the contractually required contribution	7,921,006	6,822,464	7,042,319	6,915,752	6,416,567	5,435,247	4,662,235
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 46,814,456	$ 43,233,912	$ 41,183,152	$ 47,926,209	$ 44,466,854	$ 43,205,461	$ 43,450,466
Contributions as a percentage of covered payroll	16.92%	16.15%	17.10%	14.43%	14.43%	12.58%	10.73%
CalPERS							
Contractually required contribution	$ 4,129,113	$ 3,347,118	$ 3,141,387	$ 2,900,839	$ 2,407,570	$ 2,064,693	$ 1,614,965
Less contributions in relation to the contractually required contribution	4,129,113	3,347,118	3,141,387	2,900,839	2,407,570	2,064,693	1,614,965
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 18,023,191	$ 16,233,820	$ 15,929,147	$ 16,060,453	$ 15,501,706	$ 14,866,741	$ 13,631,848
Contributions as a percentage of covered payroll	22.910%	20.700%	19.721%	18.062%	15.531%	13.888%	11.847%

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

Note 1 - Purpose of Schedules

Budgetary Comparison Schedule(s)

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.

At June 30, 2022, the District's Cafeteria fund exceeds the budgeted amount in total as follows:

	Expenditures and Other Uses		
Funds	Budget	Actual	Excess
Cafeteria Fund	$ 5,132,224	$ 5,218,393	$ 86,169

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

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

- Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
- Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of the District's Contributions for Pension

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

Supplementary Information
June 30, 2022

Franklin-McKinley School District

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
COVID-19 Elementary and Secondary School Emergency Relief (ESSER)			
COVID-19 ESSER	84.425D	15536	$ 342,673
COVID-19 ESSER II	84.425D	15547	3,636,205
COVID-19 American Rescue Plan - ESSER III	84.425U	15559	4,044,740
COVID-19 American Rescue Plan - ESSER III, Learning Loss	84.425U	10155	168,326
COVID-19 Expanded Learning Opportunities (ELO) Grant			
COVID-19 ESSER II State Reserve	84.425U	15618	394,136
COVID-19 ESSER III State Reserve Learning Loss	84.425U	15621	610,209
COVID-19 American Rescue Plan			
- Homeless Children and Youth II (ARP HYC II)	84.425U	15566	1,105
Subtotal			9,197,394
Special Education Cluster			
Special Education Grants to States	84.027	13379	1,276,928
Special Education Grants to States	84.027A	15197	44,336
Special Education Preschool Grant	84.173	13430	67,687
Special Education Preschool Grant	84.173A	13431	77
Special Education Alternate Dispute Resolution	84.173	13007	1,558
Total Special Education Cluster			1,390,586
Every Student Succeeds Act (ESSA)			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	2,229,299
Title I, Part A, School Improvement Funding for LEAs	84.010	15438	7,689
Subtotal			2,236,988
Title II, Part A, Improving Teacher Quality	84.367	14341	316,337
Title III, Limited English Proficient Student Program	84.365	14346	288,600
Title IV, Part Am Student Support			
and Academic Enrichment Grant Program	84.424	15396	159,455
Total U.S. Department Education			13,589,360
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	3,540,824
School Breakfast Program - Especially Needy Breakfast	10.555	13526	1,452,332
COVID-19 SNP Emergency Operational Costs Reimbursement	10.555	15637	149,525
Total Child Nutrition Cluster			5,142,681
COVID-19 Child and Adult Care Food Program (CACFP)	10.558	13393	790,860
COVID-19 CACFP Emergency Operational Costs Reimbursement	10.558	15577	91,641
Pandemic EBT Local Administrative Grant	10.649	15644	5,814
Total U.S. Department of Agriculture			6,030,996
Total Federal Financial Assistance			$ 19,620,356

Organization

The Franklin-McKinley School District was established in 1948 and consists of an area comprising approximately 10 square miles. The District operates 14 elementary schools and three middle schools, one of which operates as a conversion charter school. There were no boundary changes during the year.

Governing Board

Member	Office	Term Expires
Maimona Afzal Berta	President	2024
Thanh Tran	Vice President	2022
Rudy Rodriguez	Clerk	2022
George Sanchez	Member	2024
Kerry Rosado	Member	2022

Administration

Name	Title
Juan Cruz	District Superintendent
Jason Vann	Assistant Superintendent, Business Services
Norma Martinez Palmer	Assistant Superintendent, Educational Services
Annette Grasty	Assistant Superintendent, Human Resources
Joanne Chin	Director, Fiscal Services

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,328.92	2,349.38
Fourth through sixth	1,867.63	1,868.89
Seventh and eighth	1,357.52	1,359.92
Total Regular ADA	5,554.07	5,578.19
Extended Year Special Education		
Transitional kindergarten through third	3.47	3.47
Fourth through sixth	1.59	1.59
Seventh and eighth	1.27	1.27
Total Extended Year Special Education	6.33	6.33
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.86	0.88
Fourth through sixth	4.18	4.40
Seventh and eighth	2.67	2.58
Total Special Education, Nonpublic, Nonsectarian Schools	7.71	7.86
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.15	0.15
Fourth through sixth	0.69	0.69
Seventh and eighth	0.21	0.21
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	1.05	1.05
Total ADA	5,569.16	5,593.43

Grade Level	1986-1987 Minutes Requirement	2021-2022 Actual Minutes	Number of Actual Days Traditional Calendar	Number of Actual Days Multitrack Calendar	Status
Kindergarten	36,000	45,200	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		55,575	180	-	Complied
Grade 2		55,575	180	-	Complied
Grade 3		55,575	180	-	Complied
Grades 4 - 8	54,000				
Grade 4		55,425	180	-	Complied
Grade 5		55,425	180	-	Complied
Grade 6		57,125	180	-	Complied
Grade 7		57,275	180	-	Complied
Grade 8		57,275	180	-	Complied

The District did not file J-31A during the year.

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at the June 30, 2022.

	(Budget) 2023 [1]	2022	2021	2020
General Fund				
Revenues	$ 116,725,720	$ 116,644,808	$ 113,033,935	$ 102,191,390
Other sources	-	-	84,548	-
Total revenues and other sources	116,725,720	116,644,808	113,118,483	102,191,390
Expenditures	119,255,333	109,955,792	109,215,081	99,623,511
Other uses and transfers out	-	-	266,703	667,635
Total expenditures and other uses	119,255,333	109,955,792	109,481,784	100,291,146
Increase/(Decrease) in Fund Balance	(2,529,613)	6,689,016	3,636,699	1,900,244
Ending Fund Balance	$ 29,418,972	$ 31,948,585	$ 25,259,569	$ 21,622,870
Available Reserves [2]	$ 10,983,800	$ 12,284,586	$ 17,651,082	$ 18,643,474
Available Reserves as a Percentage of Total Outgo	9.21%	11.17%	16.12%	18.59%
Long-Term Liabilities	$ 229,679,424	$ 239,046,537	$ 297,055,426	$ 276,858,522
K-12 Average Daily Attendance at P-2	5,702	5,569	6,573	6,573

The General Fund balance has increased by $10,325,715 over the past two years. The fiscal year 2022-2023 budget projects a decrease of $2,529,613 (8 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past three years but anticipates incurring an operating deficit during the 2022-2023 fiscal year. Total long-term liabilities have decreased by $37,811,985 over the past two years.

Average daily attendance (ADA) has decreased by 1,004 over the past two years. Increase of 133 ADA is anticipated during fiscal year 2022-2023.

[1] Financial information for 2023, 2021, and 2020 are included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

Name of Charter School and Charter Number	Charter Number	Included in Audit Report
ACE Esperanza Middle School	1545	No
KIPP Heritage Academy	1608	No
Rocketship Mosaic Elementary Charter School	1192	No
Rocketship Spark Academy	1526	No
Voices College-Bound Language Academy	0846	No

	Student Activity Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Assets				
Deposits and investments	$ 233,467	$ 7,734,300	$ 136,654	$ 8,104,421
Receivables	-	19,481	352	19,833
Total assets	$ 233,467	$ 7,753,781	$ 137,006	$ 8,124,254
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ -	$ 8,179	$ -	$ 8,179
Unearned revenue	-	1,736	-	1,736
Total liabilities	-	9,915	-	9,915
Fund Balances				
Restricted	233,467	7,743,866	137,006	8,114,339
Total liabilities, and fund balances	$ 233,467	$ 7,753,781	$ 137,006	$ 8,124,254

	Student Activity Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
Revenues				
Other local sources	$ 264,112	$ 325,882	$ (2,922)	$ 587,072
Total revenues	264,112	325,882	(2,922)	587,072
Expenditures				
Current				
Ancillary services	249,840	-	-	249,840
Capital outlay	-	17,840	-	17,840
Total expenditures	249,840	17,840	-	267,680
Net Change in Fund Balances	14,272	308,042	(2,922)	319,392
Fund Balance - Beginning	219,195	7,435,824	139,928	7,794,947
Fund Balance - Ending	$ 233,467	$ 7,743,866	$ 137,006	$ 8,114,339

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Franklin-McKinley School District (the District) under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets (or net position or fund balance) of Franklin-McKinley School District.

Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Because the schedule presents only a selected portion of the operations of the Franklin-McKinley School District, it is not intended to and does not present the financial position, changes in net assets (or net position or fund balance) of Franklin-McKinley School District.

Summary of Significant Accounting Policies
Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No Federal financial assistance has been provided to a sub recipient.

Indirect Cost Rate
The District does not draw for indirect administrative expenses and has not elected to use the ten percent de minimus cost rate.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the School District audit.

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

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

Independent Auditor’s Reports
June 30, 2022

Franklin-McKinley School District

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Governing Board
Franklin-McKinley School District
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin-McKinley School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Franklin-McKinley School District's basic financial statements and have issued our report thereon April 5, 2023.

Adoption of New Accounting Standard

As discussed in Note 1 and Note 16 to the financial statements, the Franklin-McKinley School District has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement of lease receivable and deferred inflow of resources related to leases has been made to the Governmental Activities net position and fund balance of the General Fund as of July 1, 2021. The restatement does not affect the beginning fund balance and net position. Our opinions are not modified with respect to this matter.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Eide Bailly LLP

Menlo Park, California
April 5, 2023

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Governing Board
Franklin-McKinley School District
San Jose, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Franklin-McKinley School District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Franklin-McKinley School District's major federal programs for the year ended June 30, 2022. Franklin-McKinley School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Franklin-McKinley School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Eide Bailly LLP

Menlo Park, California
April 5, 2023

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Independent Auditor's Report on State Compliance

To the Governing Board
Franklin-McKinley School District
San Jose, California

Report on Compliance

Opinion on State Compliance

We have audited Franklin-McKinley School District's (the District) compliance with the requirements specified in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the District's state program requirements identified below for the year ended June 30, 2022.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

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Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

2021-2022 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	No, See below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See below
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See below
Middle or Early College High Schools	No, See below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, See below
Comprehensive School Safety Plan	Yes
District of Choice	No, See below
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No, See below
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	No, See below
In Person Instruction Grant	Yes
Charter Schools	
Attendance	No, See below
Mode of Instruction	No, See below
Nonclassroom-Based Instruction/Independent Study	No, See below
Determination of Funding for Nonclassroom-Based Instruction	No, See below
Annual Instructional Minutes - Classroom Based	No, See below
Charter School Facility Grant Program	No, See below

Continuation Education
We did not perform Continuation Education procedures because the program is not offered by the District.

Early Retirement Incentive
The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

Juvenile Court Schools
We did not perform procedures of Juvenile Court Schools because the program is not offered by the District.

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

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

District of Choice
We did not perform District of Choice procedures because the program is not offered by the District.

Independent Study - Course Based
The District does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

Career Technical Education Incentive Grant
We did not perform Career Technical Education Incentive Grant procedures because the District did not receive funding for this grant.

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

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	No

Identification of major programs:

Name of Federal Program or Cluster	Assisting Listing Number (ALN)
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER)	
ESSER I, ESSER II, ESSER III, ESSER III-Learning Loss	84.425D, 84.425U
COVID-19 Expanded Learning Opportunities (ELO) Grant	
ESSER II-State Reserve, ESSER III-StateReserve Learning Loss	84.425U
COVID-19 American Rescue Plan - Homeless Children and Youth	84.425U
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster	84.027, 84.027A, 84.173, 84.173A

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

State compliance

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

None reported.

None reported.

None reported.

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.