

**FRANKLIN-MCKINLEY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2014**

FRANKLIN-MCKINLEY SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
Franklin-McKinley School District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which has resulted in a restatement of beginning net position in the government-wide financial statements. The impact of the restatement is a reduction in beginning net position of \$1,571,204. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franklin-McKinley School District's internal control over financial reporting and compliance.

Wassinek, Trine, Day & Co., LLP

Palo Alto, California
November 24, 2014

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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, 2014. 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) as well as all liabilities (including long-term debt). 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 three categories of activities: governmental, proprietary, and fiduciary.

- The Governmental Activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
- The Proprietary Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.
- The Fiduciary Activities are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the 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 is 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. 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on equal to 50% of the applicable base grant multiplied by the percentage of the district's unduplicated EL/LI student enrollment in excess of 55% threshold. Full implementation of the LCFF is expected to occur over a period of eight fiscal years.

The District converted Fair Middle School to Bridges Academy as a dependent charter school in 2010-2011. For 2013-2014, the Unduplicated Pupil Percentage is 87.63% for Franklin-McKinley School District and 84.5% for Bridges Academy. The total funded ADA including Bridges Academy of 9,088 resulted in total LCFF revenue of \$62.34 million of the General Fund revenues for fiscal year 2013-2014.

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, 2014, the District's available reserves totaled \$6,369,220 consisting of \$3,964,628 in unassigned fund balance and \$2,404,592 reserved for economic uncertainties. This reserve amount is equal to 7.95% 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 and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and 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 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$52.7 and \$54.4 million for the fiscal years ended June 30, 2014, and 2013, respectively. Of these amounts, \$5.1 and \$4.5 million were unrestricted for the combined governmental funds for each respective year. 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.

Table 1

(Amounts in millions)

	Governmental Activities	
	2014	2013
Assets		
Current and other assets	\$ 45.7	\$ 43.3
Capital assets	134.7	118.0
Total Assets	<u>180.4</u>	<u>161.3</u>
Liabilities		
Current liabilities	8.8	13.7
Current portion of long-term debt	7.0	6.9
Long-term debt	112.4	86.3
Total Liabilities	<u>128.2</u>	<u>106.9</u>
Net Position		
Net investment in capital assets	36.0	37.0
Restricted	11.6	12.9
Unrestricted	5.1	4.5
Total Net Position	<u>\$ 52.7</u>	<u>\$ 54.4</u>

The \$5.1 million and \$4.5 million for fiscal years 2013-2014 and 2012-2013 in unrestricted net position of governmental activities 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 as an example); we would have \$5.1 million and \$4.5 million left from governmental activities for fiscal years 2013-2014 and 2012-2013, respectively.

Current assets in 2013-2014 increased by \$2.4 million and current liabilities decreased by \$4.9 from 2012-2013 mainly due to less state apportionment deferral in 2013-2014 than 2012-2013. The District issued a cross fiscal year TRAN in both fiscal years. However, the repayment schedule is different. The available cash and current liabilities are less at June 2014 compared with June 2013 due to less unpaid balance of TRAN. Long-term debt increased by \$26.2 million. There was an issuance of General Obligation Bonds in 2013-2014 and 2012-2013. Net position decreased by \$1.7 million to \$52.7 million in 2013-2014 from \$54.4 million in 2012-2013 mainly due to a slightly lower net investment in capital assets and restricted program carryover.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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.

Table 2

(Amounts in millions)

	Governmental Activities	
	2014	2013
Revenues		
Charges for services	\$ 0.1	\$ 0.1
Operating grants and contributions	16.6	19.0
General revenues:		
Property tax, federal revenue and state revenue limit sources	77.9	67.7
Other general revenues	2.6	5.1
Total Revenues	<u>97.2</u>	<u>91.9</u>
Expenses		
Instruction related	68.9	63.7
Student support services	9.0	8.3
Administration	5.0	5.2
Maintenance and operations	8.4	8.0
Debt Service	5.7	4.4
Other	0.2	0.1
Total Expenses	<u>97.2</u>	<u>89.7</u>
Change in Net Position	-	2.2
Net Position - Beginning	52.8	52.1
Net Position - Ending	<u>\$ 52.8</u>	<u>\$ 54.3</u>

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities was \$97.2 and \$89.7 million for 2013-2014 and 2012-2013, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only \$77.9 and \$67.7 million for 2013-2014 and 2012-2013. The cost paid by those who benefited from the programs was \$0.1 million for both 2013-2014 and 2012-2013, or by other governments and organizations who subsidized certain programs with grants and contributions of \$16.6 and \$19.0 million for 2013-2014 and 2012-2013. We paid for the "public benefit" portion of our governmental activities, with general revenue sources, primarily property taxes, in both years.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

In Table 3, we have presented the net cost of each of the District's largest functions. Net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

(Amounts in millions)

	Net Cost	
	2014	2013
Instruction	\$ 50.5	\$ 45.1
Instruction related	7.7	5.8
Pupil services	3.8	2.5
Administration	4.4	4.8
Maintenance	8.3	7.9
Interest on long-term obligation	5.7	4.4
Other	0.1	0.1
Totals	\$ 80.5	\$ 70.6

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$37.6 million, which was an increase of \$9.0 million from last year. The primary reason for the increase is related to the Building Fund. The District issued General Obligation bonds in October 2013 in the amount of \$15 million.

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 2014.

The District prepared the fiscal year 2013-2014 original adoption budget when the carryovers from fiscal year 2012-2013 were not known. The carryovers, however, were included in the fiscal year 2013-2014 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 2013-2014 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. 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2014, the District had \$134.74 million in capital assets, representing a net increase of \$16.76 million over \$117.98 million in 2013.

Table 4

(Amounts in millions)	Governmental Activities	
	2014	2013
Capital Assets		
Land	\$ 1.57	\$ 1.57
Construction in progress	24.41	22.17
Buildings and improvements	148.52	128.69
Furniture and equipment	6.05	5.87
Total Assets	180.55	158.30
Accumulated Depreciation		
Buildings and improvements	41.88	36.74
Furniture and equipment	3.93	3.58
Total Accumulated Depreciation	45.81	40.32
Net Capital Assets		
Land	1.57	1.57
Construction in progress	24.41	22.17
Buildings and improvements	106.64	91.95
Furniture and equipment	2.12	2.29
Total	\$ 134.74	\$ 117.98

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

- Projects that are under construction:
 - Technology Infrastructure upgrades at numerous sites
 - Energy Conservation projects at numerous sites
 - Security Safety projects at following school sites:
Kennedy, Lairon, Los Arboles, McKinley, Meadows, Stonegate, and Sylvandale
 - Lairon Elementary Modernization, Phase I athletic field enhancement
 - Charter Facilities KIPP at Bridges site and ACE at Stonegate site
 - Shirakawa Lunch Pavilion
- Projects that are under design:
 - Franklin School on its original site with modifications to the Tully Street entrance and intersection

Refer to Capital Assets Note 4 in the financial statements.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Long-Term Obligations

At the end of this year, the District had \$119.36 million in outstanding long-term liabilities versus \$93.14 million last year, an increase of \$26.22 million. Long-term obligations consisted of:

Table 5

(Amounts in millions)	Governmental Activities	
	2014	2013
General obligation bonds	\$ 86.35	\$ 76.44
Accretion to date	6.44	5.76
Capital leases	15.74	-
Cost of defeasance	-	(0.46)
Bond premium	4.14	3.27
Certificates of participation	4.86	5.03
Postemployment benefits	0.04	0.33
Accumulated vacation - net	0.35	0.37
Early retirement incentive	1.44	2.40
Totals	\$ 119.36	\$ 93.14

The District's obligations include compensated absences payable, general obligation bonds, certificates of participation, postemployment benefits and early retirement incentive.

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

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. The State of California's severe revenue and budget shortfalls for the last few years have put tremendous pressure on the District's general fund. The District will continue to monitor the budget situation and be poised to make additional adjustments as may be required to remain fiscally sound. 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.

State Assembly Bill (AB) 97 enacted as part of the 2014-15 State budget, establishes a new system for funding school districts, charter schools and county offices of education. Certain provisions of AB 97 were amended and clarified by Senate Bill 91. The primary component of AB 97, as amended by SB 91, is the 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 will be 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. 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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

exceed 55% of their total enrollment are eligible for a concentration grant add-on equal to 50% of the applicable Base Grant multiplied by the percentage of the District's unduplicated EL/LI student enrollment in excess of 55% threshold. Full implementation of the LCFF is expected to occur over a period of eight fiscal years.

The District construction and modernization program is supported by a \$30 million bond issue which has been augmented by the passage of an additional \$50 million bond authorization approved in November 2010. Individual school needs have been prioritized and construction schedules developed to effectively utilize these funds to modernize our schools.

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 Megan Lamken, Deputy Superintendent, Business Services, or Joanne Chin, Director of Fiscal Services, Franklin-McKinley School District, at 645 Wool Creek Dr., San Jose, CA 95112.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2014

	Governmental Activities
ASSETS	
Deposits and investments	\$ 32,763,688
Receivables	11,709,576
Prepaid expenses	544,395
Stores inventories	122,610
Other current assets	191,371
Prepaid insurance cost	313,619
Capital assets not depreciated	25,981,932
Capital assets, net of accumulated depreciation	108,752,245
Total Assets	180,379,436
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	549,734
Total Deferred Outflows of Resources	549,734
LIABILITIES	
Accounts payable	6,305,852
Interest payable	1,591,678
Unearned revenue	850,868
Claims liability	96,002
Current portion of long-term obligations	6,970,525
Noncurrent portion of long-term obligations	112,384,980
Total Liabilities	128,199,905
NET POSITION	
Net investment in capital assets	35,951,539
Restricted for:	
Legally restricted	2,347,850
Special revenue	1,381,715
Debt service	6,129,334
Capital projects	1,275,705
Self insurance programs	503,192
Unrestricted	5,139,930
Total Net Position	\$ 52,729,265

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 59,852,248	\$ 46,922	\$ 9,334,440	\$ 47	\$ (50,470,839)
Instruction-related activities:					
Supervision of instruction	1,742,482	-	433,726	-	(1,308,756)
Instructional library, media, and technology	703,287	-	251,825	-	(451,462)
School site administration	6,586,544	1,232	616,731	-	(5,968,581)
Pupil services:					
Home-to-school transportation	1,640,993	-	-	-	(1,640,993)
Food services	5,670,905	47,631	4,531,195	-	(1,092,079)
All other pupil services	1,726,495	21	599,922	-	(1,126,552)
Administration:					
Data processing	1,082,051	-	101,530	-	(980,521)
All other administration	3,922,644	2,529	494,204	-	(3,425,911)
Plant services	8,393,507	-	115,188	-	(8,278,319)
Interest on long-term obligations	5,691,982	-	-	-	(5,691,982)
Other outgo	210,545	36,242	91,346	-	(82,957)
Total Governmental Activities	\$ 97,223,683	\$ 134,577	\$ 16,570,107	\$ 47	(80,518,952)
General revenues and subventions:					
Property taxes, levied for general purposes					20,776,114
Property taxes, levied for debt service					7,983,306
Taxes levied for other specific purposes					1,256,025
Federal and state aid not restricted to specific purposes					47,796,621
Interest and investment earnings					134,154
Interagency revenues					24,180
Miscellaneous					2,505,620
					<u>80,476,020</u>
Subtotal, General Revenues					<u>80,476,020</u>
Change in Net Position					<u>(42,932)</u>
Net Position - Beginning, restated as per Note 17					<u>52,772,197</u>
Net Position - Ending					<u>\$ 52,729,265</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	Cafeteria Fund	Building Fund
ASSETS			
Deposits and investments	\$ 1,728,340	\$ 1,170,279	\$ 18,131,678
Receivables	10,782,915	899,278	18,768
Due from other funds	282,775	-	11
Prepaid expenditures	534,395	-	-
Stores inventories	42,387	80,223	-
Total Assets	\$ 13,370,812	\$ 2,149,780	\$ 18,150,457
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,200,082	\$ 485,290	\$ 272,004
Due to other funds	1,010	282,775	11
Unearned revenue	850,868	-	-
Total Liabilities	4,051,960	768,065	272,015
Fund Balances:			
Nonspendable	601,782	80,224	-
Restricted	2,347,850	1,301,491	17,878,442
Unassigned	6,369,220	-	-
Total Fund Balances	9,318,852	1,381,715	17,878,442
Total Liabilities and Fund Balances	\$ 13,370,812	\$ 2,149,780	\$ 18,150,457

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

Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 2,327,020	\$ 7,716,793	\$ 1,293,001	\$ 32,367,111
2,908	4,219	1,209	11,709,297
43	-	11	282,840
-	-	-	534,395
-	-	-	122,610
<u>\$ 2,329,971</u>	<u>\$ 7,721,012</u>	<u>\$ 1,294,221</u>	<u>\$ 45,016,253</u>
\$ 2,157,813	\$ -	\$ 190,663	\$ 6,305,852
-	-	11	283,807
-	-	-	850,868
<u>2,157,813</u>	<u>-</u>	<u>190,674</u>	<u>7,440,527</u>
-	-	-	682,006
172,158	7,721,012	1,103,547	30,524,500
-	-	-	6,369,220
<u>172,158</u>	<u>7,721,012</u>	<u>1,103,547</u>	<u>37,575,726</u>
<u>\$ 2,329,971</u>	<u>\$ 7,721,012</u>	<u>\$ 1,294,221</u>	<u>\$ 45,016,253</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2014

Total Fund Balance - Governmental Funds \$ 37,575,726

**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	\$ 180,545,120	
Accumulated depreciation is	<u>(45,810,943)</u>	
Net Capital Assets		134,734,177

In governmental funds, prepaid insurance cost relating to issuance of
long-term obligations is expensed when paid. On the government-wide
financial statements, the cost is recognized over the life of the obligations. 313,619

In governmental funds, defeasance cost relating to refunding of long-term
obligations is expensed when paid. On the government-wide financial
statements, the costs on long-term obligations is recognized over the life of
the new or old obligation, whichever is shorter. 549,734

In governmental funds, unmatured interest on long-term obligations is
recognized in the period when it is due. On the government-wide financial
statements, unmatured interest on long-term obligations is recognized when
it is incurred. (1,591,678)

An internal service fund is used by the District's management to charge
the costs of the dental and vision insurance program to the individual
funds. The assets and liabilities of the internal service fund are included
with governmental activities. 503,192

Long-term obligations, including bonds payable, are not due and payable in
the current period and, therefore, are not reported as liabilities in the funds.
Long-term obligations at year-end consist of:

Bonds payable	96,922,891	
Certificates of participation	4,860,000	
Capital leases	15,741,542	
Early retirement incentives	1,441,756	
Postemployment benefits	39,275	
Compensated absences (vacations)	<u>350,041</u>	
Total Long-Term Obligations		(119,355,505)
Total Net Position - Governmental Activities		<u>\$ 52,729,265</u>

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

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FRANKLIN-MCKINLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Cafeteria Fund	Building Fund
REVENUES			
Local control funding formula	\$ 62,642,098	\$ -	\$ -
Federal sources	5,261,640	4,375,870	-
Other state sources	8,806,762	333,304	-
Other local sources	5,104,956	800,819	70,108
Total Revenues	81,815,456	5,509,993	70,108
EXPENDITURES			
Current			
Instruction	56,333,742	-	-
Instruction-related activities:			
Supervision of instruction	1,636,342	-	-
Instructional library, media and technology	703,287	-	-
School site administration	6,185,334	-	-
Pupil services:			
Home-to-school transportation	1,541,034	-	-
Food services	85	5,325,385	-
All other pupil services	1,621,328	-	-
Administration:			
Data processing	1,016,139	-	-
All other administration	4,616,681	282,775	-
Plant services	8,037,595	-	-
Facility acquisition and construction	-	-	6,077,388
Other outgo	210,545	-	-
Debt service			
Principal	198,904	-	-
Interest and other	142,012	-	168,250
Total Expenditures	82,243,028	5,608,160	6,245,638
Excess (Deficiency) of			
Revenues Over Expenditures	(427,572)	(98,167)	(6,175,530)
Other Financing Sources			
Other sources	165,446	-	15,000,983
NET CHANGE IN FUND BALANCES	(262,126)	(98,167)	8,825,453
Fund Balance - Beginning	9,580,978	1,479,882	9,052,989
Fund Balance - Ending	\$ 9,318,852	\$ 1,381,715	\$ 17,878,442

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

Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 62,642,098
-	227,410	-	9,864,920
130,000	68,781	-	9,338,847
534,955	7,925,985	897,101	15,333,924
664,955	8,222,176	897,101	97,179,789
-	-	-	56,333,742
-	-	-	1,636,342
-	-	-	703,287
-	-	-	6,185,334
-	-	-	1,541,034
-	-	-	5,325,470
-	-	-	1,621,328
-	-	-	1,016,139
-	-	-	4,899,456
-	-	-	8,037,595
15,737,354	-	258,672	22,073,414
-	-	-	210,545
-	5,445,047	165,000	5,808,951
404,693	3,840,769	71,606	4,627,330
16,142,047	9,285,816	495,278	120,019,967
(15,477,092)	(1,063,640)	401,823	(22,840,178)
15,610,000	1,085,825	-	31,862,254
132,908	22,185	401,823	9,022,076
39,250	7,698,827	701,724	28,553,650
\$ 172,158	\$ 7,721,012	\$ 1,103,547	\$ 37,575,726

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances of Governmental Funds \$ 9,022,076

Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.

Capital outlays	\$ 22,238,858	
Depreciation expense	<u>(5,481,487)</u>	16,757,371

Prepaid insurance costs associated with the issuance of the general obligation bonds is recorded as an expenditure in the governmental funds but is recorded as prepaid on the statement of net position and does not affect the statement of activities.

113,250

Principal payments made on long-term obligations are expenditures in the governmental funds when due, however, on the government-wide statement of net position, the payments reduce the obligations and do not affect the statement of activities. The following payments were made on long-term obligations during the year:

General obligation bonds	5,445,047	
Capital lease	33,904	
Certificates of participation	<u>330,000</u>	5,808,951

In the governmental funds, interest expenditure includes those amounts due for payment during the year. In the statement of activities, interest expense includes the change in interest payable, additional accreted interest on bonds payable, and amortization of deferred charges and bond premiums as follows:

Change in interest payable	(284,842)	
Additional accreted interest	(1,034,841)	
Amortization of defeasance cost	(68,223)	
Amortization of bond premium	223,867	
Amortization of prepaid insurance on refunding	<u>(13,863)</u>	(1,177,902)

Proceeds received from sale of general obligation bonds are revenue in the government funds, but increases long-term obligations in the statement of net position and does not affect the statement of activities.

(15,000,983)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2014

Proceeds received from premiums on sale of general obligation bonds are revenue in the government funds, but increases long-term obligations in the statement of net position and does not affect the statement of activities.	(1,085,825)
Proceeds received from capital leases are revenue in the government funds, but increases long-term obligations in the statement of net position and does not affect the statement of activities.	(15,775,446)
The annual payment of the supplemental employee retirement 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.	961,142
Compensated absences are recorded in the governmental funds only to the extent that they are paid from current financial resources, while the accrued balances are recorded as long-term obligations in the statement of net position. The net increase or decrease in vacation accrual is recorded in the statement of activities. Vacation used was less than the amounts earned.	19,361
Payments to retiree benefits are recorded as an expenditure in the governmental funds when paid. However, on the government-wide statement of net position, the payments reduce the obligations and do not affect the statement of activities.	288,742
An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The increase in net position of the internal service fund is reported with governmental activities.	26,331
Change in Net Position of Governmental Activities	<u>\$ (42,932)</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 396,577
Receivables	279
Due from other funds	967
Prepaid expenses	10,000
Other current assets	191,371
Total Current Assets	<u>599,194</u>
LIABILITIES	
Current Liabilities	
Claim liabilities	96,002
Total Current Liabilities	<u>96,002</u>
NET POSITION	
Restricted	503,192
Total Net Position	<u>\$ 503,192</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-District contribution	\$ 1,484,644
OPERATING EXPENSES	
Other operating cost	1,459,275
Operating Income	<u>25,369</u>
NONOPERATING REVENUES	
Interest income	<u>962</u>
Change in Net Position	26,331
Total Net Position - Beginning	476,861
Total Net Position - Ending	<u><u>\$ 503,192</u></u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 1,486,272
Cash payments for insurance claims	(1,356,359)
Net Cash Provided By Operating Activities	129,913
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	873
Net Cash Provided By Investing Activities	873
Net Increase In Cash And Cash Equivalents	130,786
Cash and Cash Equivalents - Beginning	265,791
Cash and Cash Equivalents - Ending	\$ 396,577
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 25,369
Changes in assets and liabilities	
Due from other fund	1,628
Other current assets	87,818
Claims liabilities	15,098
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 129,913

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

FIDUCIARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2014

	Student Body Agency Funds
ASSETS	
Deposits and investments	\$ 206,396
LIABILITIES	
Due to student groups	\$ 206,396

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, one of which operates as a conversion charter school.

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.

Component Units

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

Charter School The District has an approved Charter for the Bridges Academy Charter School pursuant to *Education Code* Section 47605. The Bridges Academy Charter School is operated by the District, and its financial activities are presented in the General Fund. The District receives revenue on behalf of the Charter School which it passes on to the Charter.

Basis of Presentation - Fund Accounting

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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).

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

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).

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

Non-Major Governmental Funds

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

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost reimbursement basis. The District operates a dental and vision program that is accounted for in the internal service fund.

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

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 direct expenses and program revenues 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 use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$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 estimated fair market value on the date donated.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities 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 Obligations

All payables, accrued liabilities, and long-term obligations 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 obligations 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, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. 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.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. 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.

Fund Balances – Governmental Funds

As of June 30, 2014, 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. The District currently does not have any committed funds.

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. The District currently does not have any assigned funds.

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Minimum Fund Balance Policy

In fiscal year 2010-2011, 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 liabilities. Net 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 governmental and business-type activities columns of the statement of activities.

Estimates

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on behalf payments have not been included as revenue and expenditures.

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

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$1,571,204. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

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

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 -- DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 32,367,111
Proprietary activities	396,577
Fiduciary activities	206,396
Total Deposits and Investments	<u>\$ 32,970,084</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 666,775
Cash in revolving	25,000
Investments	32,278,309
Total Deposits and Investments	<u>\$ 32,970,084</u>

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the Pool is reported in the financial statements 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

General Authorizations

Limitations as they relate to interest rate 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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investments with the Treasurer of the County of Santa Clara are not rated.

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 depositing substantially all of its funds in the County Treasury Pool. The fair value of the deposits with the County Treasurer at June 30, 2014 was \$32,314,549 and the weighted average maturity of the pool was 416 days.

Custodial Credit Risk - Deposits

Custodial risk 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 District has no significant custodial credit risk.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3 – RECEIVABLES

Receivables at June 30, 2014, consist of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Building Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
Federal Government					
Categorical aid	\$ 83,532	\$ 803,819	\$ -	\$ -	\$ -
State Government					
State principle apportionment	9,178,646	-	-	-	-
Categorical aid	583,867	-	-	-	-
Lottery	697,714	-	-	-	-
Local Government					
Interest	67,104	-	18,768	2,908	4,219
Other local	172,052	95,459	-	-	-
Total	<u>\$ 10,782,915</u>	<u>\$ 899,278</u>	<u>\$ 18,768</u>	<u>\$ 2,908</u>	<u>\$ 4,219</u>

	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government			
Categorical aid	\$ -	\$ 887,351	\$ -
State Government			
State principle apportionment	-	9,178,646	-
Categorical aid	-	583,867	-
Lottery	-	697,714	-
Other State	-	-	-
Local Government			
Interest	1,209	94,208	279
Other local	-	267,511	-
Total	<u>\$ 1,209</u>	<u>\$ 11,709,297</u>	<u>\$ 279</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,565,500	\$ -	\$ -	\$ 1,565,500
Construction in Progress	22,173,445	2,772,394	529,408	24,416,431
Total Capital Assets Not Being Depreciated	23,738,945	2,772,394	529,408	25,981,931
Capital Assets Being Depreciated:				
Buildings and Improvements	128,686,398	19,830,426	-	148,516,824
Furniture and Equipment	5,880,919	165,446	-	6,046,365
Total Capital Assets Being Depreciated	134,567,317	19,995,872	-	154,563,189
Total Capital Assets	158,306,262	22,768,266	529,408	180,545,120
Less Accumulated Depreciation:				
Buildings and Improvements	36,744,900	5,131,405	-	41,876,305
Furniture and Equipment	3,584,556	350,082	-	3,934,638
Total Accumulated Depreciation	40,329,456	5,481,487	-	45,810,943
Governmental Activities Capital Assets, Net	\$ 117,976,806	\$ 17,286,779	\$ 529,408	\$ 134,734,177

Under the terms of agreement of the Certificates of Participations described in Note 9, the George Shirakawa, Sr. Elementary School has been pledged as collateral for the full balance due on the Certificates of Participation.

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities

Instruction	\$ 3,518,506
Supervision of instruction	106,140
School site administration	401,210
Home-to-school transportation	99,959
Food services	345,435
All other pupil services	105,167
All other general administration	317,802
Data processing	65,912
Plant maintenance and operations	521,356
Total Depreciation Expenses Governmental Activities	\$ 5,481,487

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2014, between major and nonmajor governmental funds are as follows:

Due To	Due From					Total
	General Fund	Building Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Proprietary Funds	
General Fund	\$ -	\$ -	\$ 43	\$ -	\$ 967	\$ 1,010
Cafeteria Fund	282,775	-	-	-	-	282,775
Building Fund	-	-	-	11	-	11
Non-Major Governmental Funds	-	11	-	-	-	11
Total	<u>\$ 282,775</u>	<u>\$ 11</u>	<u>\$ 43</u>	<u>\$ 11</u>	<u>\$ 967</u>	<u>\$ 283,807</u>

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 6 – DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources is 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 \$35,951,539 includes the effect of deferring the recognition of loss from advance refunding. The \$549,734 balance of the deferred outflow of resources at June 30, 2014 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The changes in the District's deferred outflow of resources during the year consisted of the following:

	Balance			Balance
	July 1, 2013	Additions	Deductions	June 30, 2014
Deferred charge on bond refunding	\$ 460,251	\$ -	\$ 57,531	\$ 402,720
Deferred charge on COP refunding	157,706	-	10,692	147,014
	<u>\$ 617,957</u>	<u>\$ -</u>	<u>\$ 68,223</u>	<u>\$ 549,734</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consists of the following:

	General Fund	Cafeteria Fund	Building Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,856,563	\$ 479,316	\$ 272,004	\$ 2,157,813	\$ 190,663	\$ 4,956,359
State principle apportionment	264,361	-	-	-	-	264,361
Salaries and benefits	1,079,158	5,974	-	-	-	1,085,132
Total	<u>\$ 3,200,082</u>	<u>\$ 485,290</u>	<u>\$ 272,004</u>	<u>\$ 2,157,813</u>	<u>\$ 190,663</u>	<u>\$ 6,305,852</u>

NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund
Federal financial assistance	\$ 90,643
Other local	760,225
Total	<u>\$ 850,868</u>

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2013, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$7,482,000 which matured on October 1, 2013. On July 15, 2013, the District issued \$3,520,000 Tax and Revenue Anticipation Notes bearing interest at 2.0 percent. Interest and principal were due and payable by April 1, 2014. The notes were sold to supplement cash flows. The District paid the entire amount by April 1, 2014.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2013	Additions	Payments	Outstanding June 30, 2014
2/27/2013	2.00%	10/1/2013	\$ 7,482,000	\$ -	\$ 7,482,000	\$ -
7/15/2013	2.00%	4/1/2014	-	3,520,000	3,520,000	-
			<u>\$ 7,482,000</u>	<u>\$ 3,520,000</u>	<u>\$ 11,002,000</u>	<u>\$ -</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 10 – LONG-TERM OBLIGATIONS

Long-Term Obligation Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 82,195,716	\$ 16,035,824	\$ 5,445,047	\$ 92,786,493	\$ 4,698,487
Bond premiums	3,274,440	1,085,825	223,867	4,136,398	223,867
Certificates of participation	5,190,000	-	330,000	4,860,000	285,000
Capital leases	-	15,775,446	33,904	15,741,542	438,559
Accumulated vacation - net	369,402	-	19,361	350,041	350,041
Postemployment benefits	328,017	-	288,742	39,275	13,429
Early retirement incentive	2,402,898	-	961,142	1,441,756	961,142
	<u>\$ 93,760,473</u>	<u>\$ 32,897,095</u>	<u>\$ 7,302,063</u>	<u>\$ 119,355,505</u>	<u>\$ 6,970,525</u>

The Bond Interest and Redemption Fund makes payments on the general obligation bonds with local property tax revenues. The General Fund or the Capital Facilities Fund, make payments for the Certificates of Participation. The accumulated vacation, postemployment benefits and early retirement incentive will be paid by the fund for which the employee worked.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2014
1999	2018	4.25-5.00%	\$ 4,990,000	\$ 1,410,000	\$ -	\$ 360,000	\$ 1,050,000
2002	2027	2.70-6.00%	8,999,326	7,734,572	383,267	700,000	7,417,839
2003	2028	3.00-4.90%	5,498,794	755,233	54,403	150,000	659,636
2004	2016	2.38-2.93%	3,500,047	878,851	56,149	520,047	414,953
2003	2015	1.25-5.00%	7,675,000	1,310,000	-	800,000	510,000
2004	2018	2.00-5.00%	14,755,000	5,390,000	-	1,260,000	4,130,000
2005	2030	3.50-5.00%	15,999,162	7,190,958	49,583	325,000	6,915,541
2006	2029	3.25-5.25%	6,950,000	6,905,000	-	-	6,905,000
2008	2033	3.50-4.00%	14,000,000	13,675,000	-	-	13,675,000
2009	2021	3.50-5.00%	7,340,000	5,940,000	-	640,000	5,300,000
2011	2036	5.25-11.98%	15,163,985	16,006,102	211,122	-	16,217,224
2012	2036	3.00-4.00%	15,000,000	15,000,000	-	690,000	14,310,000
2014	2045	5.00-6.40%	15,000,983	-	15,281,300	-	15,281,300
				<u>\$ 82,195,716</u>	<u>\$ 16,035,824</u>	<u>\$ 5,445,047</u>	<u>\$ 92,786,493</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Service Requirements to Maturity

The bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 4,698,487	\$ 3,934,411	\$ 8,632,898
2016	4,522,102	3,792,815	8,314,917
2017	4,292,012	3,808,306	8,100,318
2018	2,693,898	3,792,657	6,486,555
2019	2,774,781	3,833,558	6,608,339
2020-2024	17,175,443	15,797,663	32,973,106
2025-2029	15,284,460	8,725,857	24,010,317
2030-2034	13,408,533	6,222,672	19,631,205
2035-2039	8,642,709	10,461,961	19,104,670
2040-2044	8,467,773	17,006,852	25,474,625
2045	4,385,000	109,625	4,494,625
Subtotal	86,345,198	\$ 77,486,377	\$ 163,831,575
Accretion to date	6,441,295		
Total	\$ 92,786,493		

Certificates of Participation

In April 2002, the District issued certificates of participation (2002 Certificates) in the amount of \$13 million through the California School Boards Association Finance Corporation at interest rates ranging from 3.0 to 4.5 percent. In November 2004, \$6.5 million in the 2002 Certificates were called, paid off and removed from long-term debt. Interest rates on the remaining unpaid 2002 Certificates ranged from 3.0 to 4.4 percent with an original maturity through 2028. As of June 30, 2014, the outstanding principal balance on the 2002 Certificates amounts to \$4,860,000.

The certificates mature through 2028 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 285,000	\$ 134,449	\$ 419,449
2016	295,000	126,184	421,184
2017	305,000	117,634	422,634
2018	315,000	108,798	423,798
2019	320,000	99,750	419,750
2020-2024	1,755,000	354,041	2,109,041
2025-2028	1,585,000	91,984	1,676,984
Total	\$ 4,860,000	\$ 1,032,840	\$ 5,892,840

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Capital Leases

On July 1, 2013, the district entered into a \$15,610,000 lease/purchase agreement with an interest rate of 3.79% for the solar project. Lease payments commence in 2034.

On March 11, 2014 the District entered into a 5 year \$165,446 lease/purchase agreement with an interest rate of 2.38% to purchase buses.

The capital leases mature through 2034 as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 438,559	\$ 588,498	\$ 1,027,057
2016	466,896	574,527	1,041,423
2017	517,655	556,808	1,074,463
2018	568,432	537,176	1,105,608
2019	590,000	515,630	1,105,630
2020-2024	2,400,000	2,311,900	4,711,900
2025-2029	4,180,000	1,714,596	5,894,596
2030-2034	6,580,000	728,628	7,308,628
Total	<u>\$ 15,741,542</u>	<u>\$ 7,527,763</u>	<u>\$ 23,269,305</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$350,041.

Postemployment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to two employees who retired from the District in 2006. The District contributes 100 percent of the amount of premiums incurred by the retirees. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis, as retirees' premiums are paid. During the year, expenditures of \$288,742 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2014, amounts to \$39,275. This amount was calculated based upon the two retirees receiving benefits multiplied by the District payment in effect at June 30, 2014, multiplied by the number of years of payments remaining.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Early Retirement Incentives

In 2010-11 and 2011-12, 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 Payments
2015	\$ 961,142
2016	240,307
2017	240,307
Total	<u>\$ 1,441,756</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 11 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Cafeteria Fund	Building Fund	Special Reserve Capital Outlay Fund
Nonspendable				
Revolving cash	\$ 25,000	\$ -	\$ -	\$ -
Stores inventories	42,387	80,224	-	-
Prepaid expenditures	534,395	-	-	-
Total Nonspendable	601,782	80,224	-	-
Restricted				
Legally restricted programs	2,347,850	1,301,491	-	-
Capital projects	-	-	17,878,442	172,158
Debt services	-	-	-	-
Total Restricted	2,347,850	1,301,491	17,878,442	172,158
Unassigned				
Reserve for economic uncertainties	2,404,592	-	-	-
Remaining unassigned	3,964,628	-	-	-
Total Unassigned	6,369,220	-	-	-
Total	\$ 9,318,852	\$ 1,381,715	\$ 17,878,442	\$ 172,158

	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ -	\$ -	\$ 25,000
Stores inventories	-	-	122,611
Prepaid expenditures	-	-	534,395
Total Nonspendable	-	-	682,006
Restricted			
Legally restricted programs	-	-	3,649,341
Capital projects	-	1,103,547	19,154,147
Debt services	7,721,012	-	7,721,012
Total Restricted	7,721,012	1,103,547	30,524,500
Unassigned			
Reserve for economic uncertainties	-	-	2,404,592
Remaining unassigned	-	-	3,964,628
Total Unassigned	-	-	6,369,220
Total	\$ 7,721,012	\$ 1,103,547	\$ 37,575,726

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 12 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, the District contracted with Santa Clara County Schools Insurance Group 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
<u>Workers' Compensation Program</u>		
Santa Clara County Schools Insurance Group	Workers' Compensation	\$ 1,000,000
<u>Property and Liability Program</u>		
Santa Clara County Schools Insurance Group	General	\$ 5,000,000
	Automobile	\$ 5,000,000
	Property	\$ 500,000,000

Claims Liabilities

The District records an estimated liability for its Dental and Vision self-insurance programs. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Unpaid Claims Liabilities

The self-insurance fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014.

	Dental and Vision
Liability Balance, July 1, 2012	\$ (96,863)
Claims and changes in estimates	1,477,342
Claims payments	(1,299,575)
Liability Balance, July 1, 2013	80,904
Claims and changes in estimates	1,474,373
Claims payments	(1,459,275)
Liability Balance, June 30, 2014	96,002
Assets available to pay claims at June 30, 2014	\$ 599,194

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

Due to the implementation of the PEPRA, new members must pay at least 50% percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$3,291,696, \$3,092,557 and \$3,117,630, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the PEPRA, changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

As a result of the implementation of PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal years 2013-2014, 2012-2013, and 2011-12 were 11.442, 11.417 and 10.923 percent of covered payroll, respectively. The contribution requirements of the plan members are established by State statute. The District's contribution to CalPERS for the fiscal years ending June 30, 2014, 2013, and 2012 was \$1,317,452, \$1,167,376 and \$1,134,327, respectively.

Tax Deferred Annuity (TDA)

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. For the District's employees not covered under CalPERS or CalSTRS, the District uses Social Security as an alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 \$2,089,983, \$1,961,799 and \$1,831,082, for fiscal years 2014, 2013 and 2012, respectively. Those amounts represent 5.541 percent of annual payroll as of June 30, 2014, 5.175 percent of annual payroll as of June 30, 2013 and 4.855 percent for fiscal year ending June 30, 2012. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget or actual amounts reported in the General Fund Budgetary Schedule.

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, 2014.

Litigation

On September 16, 2014, the District agreed to pay a monetary settlement in the amount of \$136,091. 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, 2014.

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Energy Conservation	\$ 3,323,199	09/01/15
Franklin New Construction	15,108,546	06/30/17
Lairon School Modernization	1,859,493	06/30/17
	<u>\$ 20,291,238</u>	

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER 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; however, fund transactions between the entities and the District are included in these statements. The District has appointed one board member to the Governing Board of each of these two authorities. During the year ended June 30, 2014, the District made payments of \$475,943 and \$165,544 to SCCSIG and EVT, respectively. Audited financial statements are generally available from the respective entities.

NOTE 16 – SUBSEQUENT EVENTS

On July 3, 2014, the District issued \$5,915,000 Tax and Revenue Anticipation Notes bearing interest at 2.0 percent. Interest and principal are due and payable by June 30, 2015. The notes were sold to supplement cash flows.

NOTE 17 – RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. Under the provisions of GASB 65, deferred issuance costs are now considered to be period expenses and are no longer deferred and amortized to expense. As a result, the deferred issuance costs as of June 30, 2013 of \$1,571,204 have been offset against beginning net position on the Government-wide financial statements as follows:

Statement of Net Position

Net Position - Beginning	\$ 54,343,401
Restatement/cost of issuance	(1,571,204)
Net Position - Beginning as Restated	<u>\$ 52,772,197</u>

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual ¹	Variances - Favorable (Unfavorable) Final to Actual
	Original	Final		
REVENUES				
Local control funding formula	\$ 48,223,906	\$ 62,784,121	\$ 62,642,098	\$ (142,023)
Federal sources	4,922,991	5,288,998	5,261,640	(27,358)
Other state sources	16,528,447	6,186,316	6,716,778	530,462
Other local sources	5,214,395	5,173,793	5,104,957	(68,836)
Total Revenues	<u>74,889,739</u>	<u>79,433,228</u>	<u>79,725,473</u>	<u>292,245</u>
EXPENDITURES				
Current				
Certificated salaries	37,716,724	40,510,058	40,588,066	(78,008)
Classified salaries	9,917,533	10,815,765	10,776,808	38,957
Employee benefits	14,860,106	14,937,912	14,828,154	109,758
Books and supplies	2,249,284	3,491,745	2,664,417	827,328
Services and operating expenditures	9,884,300	10,438,132	10,931,553	(493,421)
Other outgo	(175,299)	(77,877)	(72,233)	(5,644)
Capital outlay	-	-	165,446	(165,446)
Debt service				
Principal	165,000	165,000	198,904	(33,904)
Interest and other	71,606	71,606	71,930	(324)
Total Expenditures	<u>74,689,254</u>	<u>80,352,341</u>	<u>80,153,045</u>	<u>199,296</u>
Excess (Deficiency) of Revenues Over Expenditures	200,485	(919,113)	(427,572)	491,541
Other Financing Sources (Uses):				
Other sources	-	-	165,446	165,446
NET CHANGE IN FUND BALANCES	200,485	(919,113)	(262,126)	656,987
Fund Balance - Beginning	9,580,978	9,580,978	9,580,978	-
Fund Balance - Ending	<u>\$ 9,781,463</u>	<u>\$ 8,661,865</u>	<u>\$ 9,318,852</u>	<u>\$ 656,987</u>

¹ On behalf payments of \$2,089,983 are not included in the actual revenues and expenditures or the budgeted revenues and expenditures.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

CAFETERIA FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable) Final to Actual
	Original	Final		
REVENUES				
Federal sources	\$ 4,254,037	\$ 4,348,127	\$ 4,375,870	\$ 27,743
Other state sources	352,489	349,083	333,304	(15,779)
Other local sources	834,022	811,997	800,819	(11,178)
Total Revenues	<u>5,440,548</u>	<u>5,509,207</u>	<u>5,509,993</u>	<u>786</u>
EXPENDITURES				
Current				
Certificated salaries				
Classified salaries	1,572,464	1,672,434	1,653,141	19,293
Employee benefits	836,829	847,991	828,293	19,698
Books and supplies	2,379,125	2,363,622	2,373,698	(10,076)
Services and operating expenditures	473,893	461,612	470,250	(8,638)
Other outgo	279,429	283,854	282,778	1,076
Total Expenditures	<u>5,541,740</u>	<u>5,629,513</u>	<u>5,608,160</u>	<u>21,353</u>
NET CHANGE IN FUND BALANCES	(101,192)	(120,306)	(98,167)	22,139
Fund Balance - Beginning	1,479,882	1,479,882	1,479,882	-
Fund Balance - Ending	<u>\$ 1,378,690</u>	<u>\$ 1,359,576</u>	<u>\$ 1,381,715</u>	<u>\$ 22,139</u>

SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Grant:			
Global Student Learning Passport	84.215K	¹	\$ 7,449
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	2,626,767
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	563,764
Title III, Limited English Proficient Student Program	84.365	14346	384,273
Individuals with Disabilities Education Act			
Basic Local Assistance	84.027	13379	1,396,366
Preschool Grant	84.173	13430	65,708
Preschool Local Entitlement	84.027A	13682	110,147
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	106,468
Preschool Staff Development	84.173A	13431	698
Total U.S. Department of Education			<u>5,261,640</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Act:			
National School Lunch Program	10.555	13391/13396	3,362,801
Basic School Breakfast	10.553	13390	888,161
Especially Needy Breakfast	10.553	13526	73,814
Fair Market Value of Commodities ²	10.555	13389	233,072
Child and Adult Care Food Program	10.558	13666	51,094
Total U.S. Department of Agriculture			<u>4,608,942</u>
Total Expenditures of Federal Awards			<u>\$ 9,870,582</u>

¹ Pass-Through Entity Identifying Number not available.

² Not included in the District's financial statements.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

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.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Buu Thai	President	2014
Rudy Rodriguez	Vice President	2014
John Lindner	Clerk	2016
George Sanchez	Member	2014
Maya Esparza	Member	2016

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Dr. John R. Porter, Jr.	District Superintendent
Timothy W. McClary	Deputy Superintendent, Business Services
Stella Kemp	Assistant Superintendent, Educational Services
Rudy Herrera	Deputy Superintendent, Human Resources
Joanne Chin	Director, Fiscal Services

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2014

DISTRICT	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	3,940.35	3,934.64
Fourth through sixth	3,072.69	3,068.14
Seventh and eighth	1,337.67	1,335.11
Total Regular ADA	<u>8,350.71</u>	<u>8,337.89</u>
Extended Year Special Education		
Transitional kindergarten through third	4.23	4.23
Fourth through sixth	3.49	3.49
Seventh and eighth	1.02	1.02
Total Extended Year Special Education	<u>8.74</u>	<u>8.74</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.95	0.93
Seventh and eighth	0.86	0.85
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.81</u>	<u>1.78</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.17	0.17
Seventh and eighth	0.31	0.31
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.48</u>	<u>0.48</u>
Total District ADA	<u>8,361.74</u>	<u>8,348.89</u>
BRIDGES CHARTER SCHOOL		
Regular Classroom-based ADA		
Seventh and eighth	679.68	680.02
Regular Non-Classroom-based ADA		
Seventh and eighth	0.12	0.16
Total Charter School ADA	<u>679.80</u>	<u>680.18</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

DISTRICT

Grade Level	1986-87	Reduced	2013-14 Actual Minutes	Number of Days	
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Status
Kindergarten	36,000	35,000	36,000	180	Complied
Grade 1	50,400	49,000	52,600	180	Complied
Grade 2	50,400	49,000	52,600	180	Complied
Grade 3	50,400	49,000	52,600	180	Complied
Grade 4	54,000	52,500	54,610	180	Complied
Grade 5	54,000	52,500	54,610	180	Complied
Grade 6	54,000	52,500	54,610	180	Complied
Grade 7	54,000	52,500	55,280	180	Complied
Grade 8	54,000	52,500	55,280	180	Complied

BRIDGES CHARTER SCHOOL

Grade Level	1986-87	Reduced	2013-14 Actual Minutes	Number of Days	
	Minutes Requirement	1986-87 Minutes Requirement		Traditional Calendar	Status
Grade 7	54,000	52,547	58,412	180	Complied
Grade 8	54,000	52,547	58,412	180	Complied

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no adjustments to the Unaudited Actual Financial Report, which require reconciliation to the audited financial statements as of June 30, 2014.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

	(Budget) 2015 ¹	2014 ³	2013	2012
GENERAL FUND				
Revenues	\$ 83,981,053	\$ 79,725,473	\$ 75,392,704	\$ 77,686,125
Other sources	-	165,446	-	-
Total Revenues and Other Sources	83,981,053	79,890,919	75,392,704	77,686,125
Expenditures	86,940,335	80,153,045	74,741,830	75,486,575
INCREASE IN FUND BALANCE	\$ (2,959,282)	\$ (262,126)	\$ 650,874	\$ 2,199,550
ENDING FUND BALANCE	\$ 6,359,571	\$ 9,318,852	\$ 9,580,978	\$ 8,930,104
AVAILABLE RESERVES ²	\$ 3,409,939	\$ 6,369,220	\$ 7,023,595	\$ 6,598,315
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.92%	7.95%	9.40%	8.74%
LONG-TERM OBLIGATIONS	\$ 112,384,980	\$ 119,355,505	\$ 93,142,516	\$ 97,742,466
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	8,801	9,042	9,160	9,383

The General Fund balance has increased by \$388,748 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$2,959,282. 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 an operating surplus in two of past three years, but anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have increased by \$21,613,039 over the past two years due to new bond issuances in 2013-14.

Average daily attendance has decreased by 341 over the past two years. The District anticipates a decrease of 241 ADA during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$2,089,983, \$1,961,799 and \$1,831,082, in the General Fund have been excluded from revenues, expenditures and the calculation of available reserves percentage for fiscal years ending June 30, 2014, 2013, and 2012, respectively.

⁴ Average daily attendance includes District and Bridges Academy charter school ADA, but excluded District funded county program ADA.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS JUNE 30, 2014

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Bridges Academy	Yes
Cornerstone Academy Preparatory School	No
Rocketship Mosaic Elementary Charter School	No
Voices College-Bound Language Academy	No
Rocketship Spark Academy	No

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2014

	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 1,281,830	\$ 11,171	\$ 1,293,001
Receivables	1,198	11	1,209
Due from other funds	11	-	11
Total Assets	<u>\$ 1,283,039</u>	<u>\$ 11,182</u>	<u>\$ 1,294,221</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 179,492	\$ 11,171	\$ 190,663
Due to other funds	-	11	11
Total Liabilities	<u>179,492</u>	<u>11,182</u>	<u>190,674</u>
Fund Balances:			
Restricted	1,103,547	-	1,103,547
Total Liabilities and Fund Balances	<u>\$ 1,283,039</u>	<u>\$ 11,182</u>	<u>\$ 1,294,221</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES			
Other local sources	\$ 897,053	\$ 48	\$ 897,101
EXPENDITURES			
Current			
Facility acquisition and construction	247,490	11,182	258,672
Debt service			
Principal	165,000	-	165,000
Interest and other	71,606	-	71,606
Total Expenditures	<u>484,096</u>	<u>11,182</u>	<u>495,278</u>
NET CHANGE IN FUND BALANCES	412,957	(11,134)	401,823
Fund Balance - Beginning	690,590	11,134	701,724
Fund Balance - Ending	<u>\$ 1,103,547</u>	<u>\$ -</u>	<u>\$ 1,103,547</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2014

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 9,864,920
Federal Reimbursement of Qualified School Construction	Not Available	(227,410)
Fair Market Value of Commodities	10.558	233,072
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,870,582</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District did not meet or exceed their local control funding formula target, but has participated in the incentive funding of increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instruction 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current 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 Franklin-McKinley School District and displays information for each Charter School on whether or not the Charter School is included in the Franklin-McKinley School District audit.

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Franklin-McKinley School District
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin-McKinley School District (the District) as of and for the year ended June 30, 2014, 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 dated November 24, 2014.

Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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



Palo Alto, California

November 24, 2014



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

Governing Board
Franklin-McKinley School District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Franklin-McKinley School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Franklin-McKinley School District's (the District) major Federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Franklin-McKinley School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Franklin-McKinley School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Wassinek, Trine, Day & Co., LLP

Palo Alto, California
November 24, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Franklin-McKinley School District
San Jose, California

Report on State Compliance

We have audited Franklin-McKinley School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2013-2014* that could have a direct and material effect on each of the Franklin-McKinley School District's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Franklin-McKinley School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-2014*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Franklin-McKinley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Franklin-McKinley School District's compliance with those requirements.

Unmodified Opinion on Each of the State Programs Listed Below

In our opinion, Franklin-McKinley School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

Other Matters

In connection with the audit referred to above, we selected and tested transactions and records to determine the Franklin-McKinley School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No
Continuation Education	10	Not Applicable
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	No
Determination of Funding for Non Classroom-Based Instruction	3	No
Annual Instruction Minutes Classroom-Based	4	Yes
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for independent study, non classroom-based instruction/independent study and determination of funding for non classroom-based instruction because ADA generated from this program is below testing threshold. In addition, we did not test California clean energy jobs act funding because the fund has not been spent as of June, 30, 2014.

Vassinek, Trine, Day & Co., LLP

Palo Alto, California
November 24, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.555, 10.553, 10.558</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for all State programs:	<u>Unmodified</u>
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FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

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

Financial Statement Findings

2013-1 STUDENT BODY ACCOUNTS AT SITE (30000)

Criteria or Specific Requirements

The internal controls over the financial reporting of the Associated Student Body (ASB) accounts should include policies and procedures over the timely deposits of its cash collections.

Condition

During our visit at one of the school sites, we noted that the number of days between receipt and deposit was over a month.

Questioned Costs

None.

Context

All site cash collections and all cash collected from ASB activities.

Current Status

Implemented.

Federal Awards Findings

None reported.

State Awards Findings

None reported.