

**FRANKLIN-MCKINLEY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2015**

FRANKLIN-MCKINLEY SCHOOL DISTRICT

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FINANCIAL SECTION

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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, 2015, 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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison, the District's proportionate share of the net pension liability, and the District's pension contribution, 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.

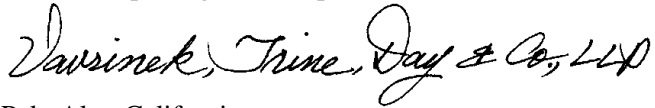
Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2015, 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.



Palo Alto, California
November 30, 2015

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, 2015. 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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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 2014-2015, the Unduplicated Pupil Percentage is 87.53% for Franklin-McKinley School District and 86.43% for Bridges Academy. The total funded ADA of 8,641 includes 581 from Bridges Academy. The combination resulted in total LCFF revenue of \$69.89 million in the General Fund revenues for fiscal year 2014-2015.

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, 2015, the District's available reserves totaled consisting of \$4,289,619 in unassigned fund balance and \$2,716,878 reserved for economic uncertainties. This reserve amount is equal to 7.74% 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, 2015

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, 2015**

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$11.9 million deficit and \$22.0 million deficit for the fiscal years ended June 30, 2015, and 2014, respectively. Of these amounts, -\$69.3 and -\$69.6 million were unrestricted for the combined governmental funds for each respective year. The negative unrestricted net position is the result of implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use net position for day-to-day operations.

Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

(Amounts in millions)	Governmental Activities	
	2015	2014*
Assets		
Current and other assets	\$ 49.8	\$ 45.6
Capital assets	145.8	134.7
Total Assets	195.6	180.3
Deferred Outflows of Reserves		
Deferred charge on refunding	0.5	0.5
Deferred outflow related to pension	5.8	4.6
Total Deferred Outflows	6.3	5.1
Liabilities		
Current liabilities	12.4	8.8
Current portion of long-term debt	6.6	7.0
Long-term debt	177.8	191.6
Total Liabilities	196.8	207.4
Deferred Inflows of Reserves		
Deferred inflow related to pension	17.0	-
Net Position		
Net investment in capital assets	45.8	36.0
Restricted	11.6	11.6
Unrestricted	(69.3)	(69.6)
Total Net Position	\$ (11.9)	\$ (22.0)

* For comparison purpose, amount reflect GASB 68 restatement.

The -\$69.3 million and -\$69.6 million for fiscal years 2014-2015 and 2013-2014 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 and pension liability as examples); we would have -\$69.3 million and -\$69.6 million left from governmental activities for fiscal years 2014-2015 and 2013-2014, respectively.

Current assets in 2014-2015 increased by \$4.2 million and current liabilities increased by \$3.2 million from 2013-2014.

Long-term debt decreased by \$13.8 million. This is also reflected the reporting requirement of GASB 68 to report the pension liabilities. Net position increased by \$10.1 million to \$11.9 million deficit in 2014-2015 from \$22.0 million deficit in 2013-2014 as described above regarding GASB 68 reporting requirement.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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.

(Amounts in millions)	Governmental Activities	
	2015	2014
Revenues		
Charges for services	\$ 0.2	\$ 0.1
Operating grants and contributions	18.3	16.6
General revenues:		
Property tax, federal revenue and state revenue limit sources	84.1	77.8
Other general revenues	13.8	2.6
Total Revenues	<u>116.4</u>	<u>97.1</u>
Expenses		
Instruction related	76.0	68.9
Student support services	10.1	9.0
Administration	6.4	5.0
Maintenance and operations	8.2	8.4
Debt Service	5.4	5.7
Other	0.3	0.2
Total Expenses	<u>106.4</u>	<u>97.2</u>
Change in Net Position	10.0	(0.1)
Net Position - Beginning	52.7	52.8
Net Position - Restated	(74.6)	-
Net Position - Ending	<u>\$ (11.9)</u>	<u>\$ 52.7</u>

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities was \$106.4 and \$97.2 million for 2014-2015 and 2013-2014, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only \$84.1 and \$77.8 million for 2014-2015 and 2013-2014. The cost paid by those who benefited from the programs was \$0.2 and \$0.1 million for 2014-2015 and 2013-2014, or by other governments and organizations who subsidized certain programs with grants and contributions of \$18.3 and \$16.6 million for 2014-2015 and 2013-2014. We paid for the "public benefit" portion of our governmental activities, with general revenue sources, primarily property taxes, in both years.

(Amounts in millions)	Net Cost	
	2015	2014
Instruction	\$ 54.9	\$ 50.5
Instruction related	9.4	7.7
Pupil services	3.9	3.8
Administration	5.9	4.4
Maintenance	8.1	8.3
Interest on long-term obligation	5.4	5.7
Other	0.3	0.1
Totals	<u>\$ 87.9</u>	<u>\$ 80.5</u>

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$37.9 million, which was an increase of \$0.3 million from last year. The primary reason for the increase is related to the Non-Major Governmental Funds. The increase of fund balance is contributed revenue received from Developer Fees.

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 2015.

The District prepared the fiscal year 2014-2015 original adoption budget when the carryovers from fiscal year 2013-2014 were not known. The carryovers, however, were included in the fiscal year 2014-2015 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 2014-2015 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2015, the District had \$145.76 million in capital assets, representing a net increase of \$11.02 million over \$134.74 million in 2014.

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

- Projects that are under construction:
 - Charter Facilities – KIPP at Stonegate and ACE Phase II at Bridges
 - CDBG Project at Bridges
 - Emergency Repair District Office Roofing
 - Educare Project at Santee

(Amounts in millions)	Governmental Activities	
	2015	2014
Capital Assets		
Land	\$ 1.57	\$ 1.57
Construction in progress	30.76	24.41
Buildings and improvements	158.67	148.52
Furniture and equipment	7.69	6.05
Total Assets	198.69	180.55
Accumulated Depreciation		
Buildings and improvements	48.64	41.88
Furniture and equipment	4.29	3.93
Total Accumulated Depreciation	52.93	45.81
Net Capital Assets		
Land	1.57	1.57
Construction in progress	30.76	24.41
Buildings and improvements	110.03	106.64
Furniture and equipment	3.40	2.12
Total	\$ 145.76	\$ 134.74

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

- 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.

Long-Term Obligations

At the end of this year, the District had \$184.35 million in outstanding long-term liabilities versus \$198.57 million last year, a decrease of \$14.22 million. The District’s Long-term obligations include compensated absences payable, general obligation bonds, certificates of participation, postemployment benefits, capital leases, early retirement incentive and pension liabilities.

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

(Amounts in millions)	Governmental Activities	
	2015	2014*
General obligation bonds	\$ 86.21	\$ 86.35
Accretion to date	6.80	6.44
Capital leases	16.44	15.74
Bond premium	4.67	4.14
Certificates of participation	4.58	4.86
Postemployment benefits	0.73	0.04
Accumulated vacation - net	0.25	0.35
Pension liabilities	64.19	79.21
Early retirement incentive	0.48	1.44
Totals	\$ 184.35	\$ 198.57

* For comparison purpose, amount reflect GASB 68 restatement.

Net Pension Liability (NPL)

GASB Statements No. 68 and No. 71 introduce new requirements for accrual-basis recognition by state and local governments of employer costs and obligations for pensions. Under the new accounting standards, if the present value of benefits earned by all employees participating in the CalSTRS or CalPERS pension plan exceeds the resources accumulated by the pension plan to benefits, LEAs must now report in their government wide financial statements their proportionate share of the plan’s net pension liability. At present, both CalSTRS and CalPERS have a net pension liability. The district implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015.

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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 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, Assistant 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, 2015**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 43,266,035
Receivables	5,360,663
Prepaid expenses	538,171
Stores inventories	108,757
Other current assets	195,489
Prepaid insurance cost	299,756
Capital assets not depreciated	32,331,338
Capital assets, net of accumulated depreciation	113,433,062
Total Assets	<u>195,533,271</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	530,108
Deferred outflows related to pensions	5,826,405
Total Deferred Outflows of Resources	<u>6,356,513</u>
LIABILITIES	
Accounts payable	9,439,895
Interest payable	1,431,480
Unearned revenue	1,415,684
Claims liability	90,572
Current portion of long-term obligations other than pensions	6,591,664
Noncurrent portion of long-term obligations other than pensions	113,573,299
Aggregate net pension liability	64,188,102
Total Liabilities	<u>196,730,696</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	17,014,420
Total Deferred Inflows of Resources	<u>17,014,420</u>
NET POSITION	
Net investment in capital assets	45,829,787
Restricted for:	
Educational programs	1,493,172
Food services	1,227,600
Debt service	6,425,384
Capital projects	1,819,464
Self insurance programs	612,302
Unrestricted	(69,263,041)
Total Net Position	<u>\$ (11,855,332)</u>

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, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 64,774,822	\$ 76,788	\$ 9,822,776	\$ (54,875,258)
Instruction-related activities:				
Supervision of instruction	3,090,128	-	882,733	(2,207,395)
Instructional library, media, and technology	819,421	-	339,862	(479,559)
School site administration	7,330,960	3,291	593,318	(6,734,351)
Pupil services:				
Home-to-school transportation	1,588,161	-	-	(1,588,161)
Food services	6,203,627	57,725	5,509,289	(636,613)
All other pupil services	2,294,690	-	595,042	(1,699,648)
Administration:				
Data processing	1,135,502	-	-	(1,135,502)
All other administration	5,270,768	3,285	481,386	(4,786,097)
Plant services	8,181,926	-	99,080	(8,082,846)
Enterprise services	106,152	-	-	(106,152)
Interest on long-term obligations	5,364,137	-	-	(5,364,137)
Other outgo	195,909	26,618	-	(169,291)
Total Governmental Activities	\$ 106,356,203	\$ 167,707	\$ 18,323,486	(87,865,010)
General revenues and subventions:				
				23,785,532
Property taxes, levied for general purposes				8,185,714
Property taxes, levied for debt service				1,249,891
Taxes levied for other specific purposes				50,666,712
Federal and state aid not restricted to specific purposes				209,264
Interest and investment earnings				25,828
Interagency revenues				13,795,731
Miscellaneous				
				<u>97,918,672</u>
				Change in Net Position
				10,053,662
Net Position - Beginning, as restated				(21,908,994)
Net Position - Ending				<u>\$ (11,855,332)</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	Cafeteria Fund	Building Fund
ASSETS			
Deposits and investments	\$ 10,246,107	\$ 988,508	\$ 18,082,097
Receivables	2,903,704	1,064,693	25,328
Due from other funds	325,953	-	-
Prepaid expenditures	528,171	-	-
Stores inventories	20,468	88,289	-
Total Assets	\$ 14,024,403	\$ 2,141,490	\$ 18,107,425
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,534,023	\$ 587,937	\$ 173,999
Due to other funds	1,388	325,953	-
Unearned revenue	1,415,684	-	-
Total Liabilities	4,951,095	913,890	173,999
Fund Balances:			
Nonspendable	573,639	88,289	-
Restricted	1,493,172	1,139,311	17,933,426
Unassigned	7,006,497	-	-
Total Fund Balances	9,073,308	1,227,600	17,933,426
Total Liabilities and Fund Balances	\$ 14,024,403	\$ 2,141,490	\$ 18,107,425

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
\$ 4,170,333	\$ 7,850,674	\$ 1,432,824	\$ 42,770,543
1,113,878	6,190	246,365	5,360,158
-	-	-	325,953
-	-	-	528,171
-	-	-	108,757
<u>\$ 5,284,211</u>	<u>\$ 7,856,864</u>	<u>\$ 1,679,189</u>	<u>\$ 49,093,582</u>
\$ 5,110,354	\$ -	\$ 33,582	\$ 9,439,895
-	-	-	327,341
-	-	-	1,415,684
<u>5,110,354</u>	<u>-</u>	<u>33,582</u>	<u>11,182,920</u>
-	-	-	661,928
173,857	7,856,864	1,645,607	30,242,237
-	-	-	7,006,497
<u>173,857</u>	<u>7,856,864</u>	<u>1,645,607</u>	<u>37,910,662</u>
<u>\$ 5,284,211</u>	<u>\$ 7,856,864</u>	<u>\$ 1,679,189</u>	<u>\$ 49,093,582</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balance - Governmental Funds **\$ 37,910,662**

**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	\$ 198,698,535	
Accumulated depreciation is	(52,934,135)	
Net Capital Assets		145,764,400

Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	5,826,405
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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.	299,756
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In governmental funds, defeasance cost relating to refunding of long-term obligations is expensed when paid. On the government-wide financial statements, the costs is amortized over the life of the new or old obligation, whichever is shorter.	530,108
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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.	(1,431,480)
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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.	612,302
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The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to penion expense.	(17,014,420)
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The accompanying notes are an integral part of these basic financial statements.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION, CONTINUED
JUNE 30, 2015**

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	97,687,997	
Certificates of participation	4,575,000	
Capital leases	16,434,906	
Early retirement incentives	480,614	
Postemployment benefits	734,354	
Compensated absences (vacations)	252,092	
Net pension liability	64,188,102	
	<hr/>	
Total Long-Term Obligations		(184,353,065)
Total Net Position - Governmental Activities		<u><u>\$ (11,855,332)</u></u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Cafeteria Fund	Building Fund
REVENUES			
Local control funding formula	\$ 70,650,830	\$ -	\$ -
Federal sources	4,687,603	4,822,608	-
Other state sources	7,121,568	380,530	-
Other local sources	6,184,011	697,232	191,804
Total Revenues	<u>88,644,012</u>	<u>5,900,370</u>	<u>191,804</u>
EXPENDITURES			
Current			
Instruction	59,629,454	-	-
Instruction-related activities:			
Supervision of instruction	2,835,265	-	-
Instructional library, media and technology	750,109	-	-
School site administration	6,712,803	-	-
Pupil services:			
Home-to-school transportation	1,458,616	-	-
Food services	-	5,728,530	-
All other pupil services	2,105,107	-	-
Administration:			
Data processing	2,252,858	-	-
All other administration	4,946,502	325,955	-
Plant services	7,754,143	-	-
Facility acquisition and construction	-	-	4,881,321
Other outgo	195,909	-	-
Debt service			
Principal	1,122,177	-	-
Interest and other	799,654	-	90,499
Total Expenditures	<u>90,562,597</u>	<u>6,054,485</u>	<u>4,971,820</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,918,585)	(154,115)	(4,780,016)
Other Financing Sources			
Other sources	1,673,041	-	4,835,000
NET CHANGE IN FUND BALANCES	(245,544)	(154,115)	54,984
Fund Balance - Beginning	9,318,852	1,381,715	17,878,442
Fund Balance - Ending	<u>\$ 9,073,308</u>	<u>\$ 1,227,600</u>	<u>\$ 17,933,426</u>

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
\$ -	\$ -	\$ -	\$ 70,650,830
-	229,139	-	9,739,350
-	63,855	-	7,565,953
9,912,280	8,136,890	2,473,911	27,596,128
<u>9,912,280</u>	<u>8,429,884</u>	<u>2,473,911</u>	<u>115,552,261</u>
-	-	-	59,629,454
-	-	-	2,835,265
-	-	-	750,109
-	-	-	6,712,803
-	-	-	1,458,616
-	-	-	5,728,530
-	-	-	2,105,107
-	-	-	2,252,858
-	-	-	5,272,457
-	-	-	7,754,143
9,910,581	-	1,722,127	16,514,029
-	-	-	195,909
-	5,674,953	142,500	6,939,630
-	3,016,414	67,224	3,973,791
<u>9,910,581</u>	<u>8,691,367</u>	<u>1,931,851</u>	<u>122,122,701</u>
1,699	(261,483)	542,060	(6,570,440)
-	397,335	-	6,905,376
1,699	135,852	542,060	334,936
172,158	7,721,012	1,103,547	37,575,726
<u>\$ 173,857</u>	<u>\$ 7,856,864</u>	<u>\$ 1,645,607</u>	<u>\$ 37,910,662</u>

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, 2015

Net Change in Fund Balances of Governmental Funds	\$ 334,936
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
<p>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.</p>	
Capital outlays	\$ 18,210,508
Depreciation expense	<u>(7,175,013)</u>
Net Expense Adjustment	11,035,495
Loss on disposal of capital assets is reported in the statement of activities, but is not recorded in the governmental funds.	(5,272)
Refunding cost of the refunded bonds is recorded as an expenditure in the governmental funds but is recorded as a deferred charge on the statement of net position and does not affect the statement of activities.	53,997
<p>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:</p>	
General obligation bonds	10,634,953
Capital lease	979,677
Certificates of participation	<u>285,000</u>
Total Principal Payments	11,899,630
<p>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:</p>	
Change in interest payable	160,198
Amortization of bond premium	573,008
Additional accreted interest	(1,337,837)
Amortization of defeasance cost	(73,623)
Amortization of prepaid insurance on refunding	<u>(13,863)</u>
Total Amortization And Changes In Interest Expenses	(692,117)

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, 2015

Proceeds and premium 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.	(10,635,230)
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.	(1,673,041)
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.	97,949
Additions to the post employment benefits was not recognized in the governmental funds. However, it is recognized as expenses in the statement of activities and increases liabilities in the statement of net position.	(695,079)
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.	961,142
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	(737,858)
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.	109,110
Change in Net Position of Governmental Activities	<u>\$ 10,053,662</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, 2015**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 495,492
Receivables	505
Due from other funds	1,388
Prepaid expenses	10,000
Other current assets	195,489
Total Current Assets	<u>702,874</u>
LIABILITIES	
Current Liabilities	
Claim liabilities	90,572
Total Current Liabilities	<u>90,572</u>
NET POSITION	
Restricted	612,302
Total Net Position	<u>\$ 612,302</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, 2015**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-District contribution	\$ 1,526,609
OPERATING EXPENSES	
Other operating cost	1,419,086
Operating Income	<u>107,523</u>
NONOPERATING REVENUES	
Interest income	<u>1,587</u>
Change in Net Position	109,110
Total Net Position - Beginning	503,192
Total Net Position - Ending	<u><u>\$ 612,302</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, 2015**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 1,526,188
Cash payments for insurance claims	(1,428,634)
Net Cash Provided By Operating Activities	<u>97,554</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	1,361
Net Increase In Cash And Cash Equivalents	<u>98,915</u>
Cash and Cash Equivalents - Beginning	396,577
Cash and Cash Equivalents - Ending	<u><u>\$ 495,492</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 107,523
Changes in assets and liabilities	
Due from other fund	(421)
Other current assets	(4,118)
Claims liabilities	(5,430)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 97,554</u></u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Student Body Agency Funds
ASSETS	
Deposits and investments	\$ 208,407
LIABILITIES	
Due to student groups	\$ 208,407

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015, 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.

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability.

Pensions

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

Fund Balances – Governmental Funds

As of June 30, 2015, 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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.

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 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 District has implemented the Provisions of this Statement for the year ended June 30, 2015.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$75,614,191. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 42,770,543
Proprietary activities	495,492
Fiduciary activities	208,407
Total Deposits and Investments	<u>\$ 43,474,442</u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	\$ 292,661
Cash in revolving	25,000
Investments	43,156,781
Total Deposits and Investments	<u>\$ 43,474,442</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, 2015**

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, 2015 was \$43,178,705 and the weighted average maturity of the pool was 469 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, 2015**

NOTE 3 – RECEIVABLES

Receivables at June 30, 2015, 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	\$ 411,350	\$ 880,854	\$ -	\$ -	\$ -
State Government					
State principal apportionment	246,356	-	-	-	-
Categorical aid	327,854	65,560	-	-	-
Lottery	774,389	-	-	-	-
Local Government					
Interest	31,108	1,214	25,251	1,167	6,190
Other local	1,112,647	117,065	77	1,112,711	-
Total	<u>\$ 2,903,704</u>	<u>\$ 1,064,693</u>	<u>\$ 25,328</u>	<u>\$ 1,113,878</u>	<u>\$ 6,190</u>

	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government			
Categorical aid	\$ -	\$ 1,292,204	\$ -
State Government			
State principal apportionment	-	246,356	-
Categorical aid	-	393,414	-
Lottery	-	774,389	-
Local Government			
Interest	1,671	66,601	505
Other local	244,694	2,587,194	-
Total	<u>\$ 246,365</u>	<u>\$ 5,360,158</u>	<u>\$ 505</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,565,500	\$ -	\$ -	\$ 1,565,500
Construction in Progress	24,416,431	15,727,990	9,378,583	30,765,838
Total Capital Assets Not Being Depreciated	25,981,931	15,727,990	9,378,583	32,331,338
Capital Assets Being Depreciated:				
Buildings and Improvements	148,516,824	10,175,110	10,489	158,681,445
Furniture and Equipment	6,046,365	1,685,991	46,603	7,685,753
Total Capital Assets Being Depreciated	154,563,189	11,861,101	57,092	166,367,198
Total Capital Assets	180,545,120	27,589,091	9,435,675	198,698,536
Less Accumulated Depreciation:				
Buildings and Improvements	41,876,305	6,772,993	10,489	48,638,809
Furniture and Equipment	3,934,638	402,020	41,331	4,295,327
Total Accumulated Depreciation	45,810,943	7,175,013	51,820	52,934,136
Governmental Activities Capital Assets, Net	\$ 134,734,177	\$ 20,414,078	\$ 9,383,855	\$ 145,764,400

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	\$ 4,522,383
Supervision of instruction	215,030
Instructional library, media, and technology	56,889
School site administration	509,108
Home-to-school transportation	110,623
Food services	434,460
All other pupil services	159,654
Enterprise activities	8,051
All other general administration	399,870
Data processing	170,860
Plant maintenance and operations	588,085
Total Depreciation Expenses Governmental Activities	<u>\$ 7,175,013</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2015, between major and non-major governmental funds are as follows:

Due To	Due From		Total
	General Fund	Self-Insurance Fund	
General Fund	\$ -	\$ 1,388	\$ 1,388
Cafeteria Fund	325,953	-	325,953
Total	\$ 325,953	\$ 1,388	\$ 327,341

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 \$45,829,787 includes the effect of deferring the recognition of loss from advance refunding. The \$530,108 balance of the deferred outflow of resources at June 30, 2015 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. In addition, the District’s current year pension contribution of \$5,148,164 was made after the pension liability measurement date, June 30, 2014. Therefore, the recognition of current year payment is deferred and will be recognized as pension expenses in fiscal year 2015-16 (see Note 13 for more information on pension expenses and liabilities).

Deferred outflow of resources at June 30, 2015 consisted of the following:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Deferred charge on bond refunding	\$ 402,720	\$ 53,997	\$ 62,931	\$ 393,786
Deferred charge on COP refunding	147,014	-	10,692	136,322
Deferred amount related to pension	4,568,850	6,052,485	4,794,930	5,826,405
Total	\$ 5,118,584	\$ 6,106,482	\$ 4,868,553	\$ 6,356,513

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consists of the following:

	General Fund	Cafeteria Fund	Building Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,960,210	\$ 580,366	\$ 173,671	\$ 5,110,354	\$ 33,582	\$ 7,858,183
State principal apportionment	364,774	-	-	-	-	364,774
Salaries and benefits	1,209,039	7,571	328	-	-	1,216,938
Total	<u>\$ 3,534,023</u>	<u>\$ 587,937</u>	<u>\$ 173,999</u>	<u>\$ 5,110,354</u>	<u>\$ 33,582</u>	<u>\$ 9,439,895</u>

NOTE 8 – UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund
Federal financial assistance	\$ 42,251
Other local	1,373,433
Total	<u>\$ 1,415,684</u>

NOTE 9 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 3, 2014, the District issued \$5,915,000 Tax and Revenue Anticipation Notes bearing interest at 2.0 percent. Interest and principal were due and payable by April 1, 2015. The notes were sold to supplement cash flows. The District paid the entire amount by April 1, 2015.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2014	Additions	Payments	Outstanding June 30, 2015
7/3/2014	2.00%	6/30/2015	\$ -	\$ 5,915,000	\$ 5,915,000	\$ -

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2014	Acretion / Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	\$ 92,786,493	\$ 10,862,837	\$ 10,634,953	\$ 93,014,377	\$ 4,522,102
Bond premiums	4,136,398	1,110,230	573,008	4,673,620	302,177
Certificates of participation	4,860,000	-	285,000	4,575,000	295,000
Capital leases	15,741,542	1,673,041	979,677	16,434,906	925,207
Accumulated vacation - net	350,041	-	97,949	252,092	252,092
Postemployment benefits	39,275	724,842	29,763	734,354	54,779
Pension liabilities	79,207,109	-	15,019,007	64,188,102	-
Early retirement incentive	1,441,756	-	961,142	480,614	240,307
Total	<u>\$ 198,562,614</u>	<u>\$ 14,370,950</u>	<u>\$ 28,580,499</u>	<u>\$ 184,353,065</u>	<u>\$ 6,591,664</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, 2014	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2015
1999	2018	4.25-5.00%	\$ 4,990,000	\$ 1,050,000	\$ -	\$ 370,000	\$ 680,000
2002	2027	2.70-6.00%	8,999,326	7,417,839	361,582	700,000	7,079,421
2003	2028	3.00-4.90%	5,498,794	659,636	32,156	300,000	391,792
2004	2016	2.38-2.93%	3,500,047	414,953	-	414,953	-
2003	2015	1.25-5.00%	7,675,000	510,000	-	510,000	-
2004	2018	2.00-5.00%	14,755,000	4,130,000	-	1,305,000	2,825,000
2005	2030	3.50-5.00%	15,999,162	6,915,541	105,931	5,335,000	1,686,472
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	5,300,000	-	700,000	4,600,000
2011	2036	5.25-11.98%	15,163,985	16,217,224	452,996	-	16,670,220
2012	2036	3.00-4.00%	15,000,000	14,310,000	-	1,000,000	13,310,000
2014	2045	5.00-6.40%	15,000,983	15,281,300	385,172	-	15,666,472
2015	2025	3.00-5.00%	4,690,000	-	4,690,000	-	4,690,000
2015	2038	3.00-5.00%	4,835,000	-	4,835,000	-	4,835,000
				<u>\$ 92,786,493</u>	<u>\$ 10,862,837</u>	<u>\$ 10,634,953</u>	<u>\$ 93,014,377</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Debt Service Requirements to Maturity

The bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	\$ 4,522,102	\$ 3,996,117	\$ 8,518,219
2017	4,292,012	4,003,532	8,295,544
2018	2,768,898	3,986,758	6,755,656
2019	2,909,781	4,023,834	6,933,615
2020	3,614,988	3,642,937	7,257,925
2021-2025	17,446,738	15,204,625	32,651,363
2026-2030	14,130,290	8,802,700	22,932,990
2031-2035	15,079,075	6,497,125	21,576,200
2036-2040	9,080,056	13,206,489	22,286,545
2041-2045	12,367,771	13,566,479	25,934,250
Subtotal	<u>86,211,711</u>	<u>\$ 76,930,596</u>	<u>\$ 163,142,307</u>
Accretion to date	6,802,666		
Total	<u>\$ 93,014,377</u>		

Advance Refunding

In July 1, 2014, the District issued \$4,690,000 in General Obligation Bonds with an interest rate ranging from three percent to five percent to advance refund \$4,960,000 of outstanding Election of 2004 General Obligation Bonds, Series A with interest rate ranging from 3.5 percent to five percent. The net proceeds of \$5,284,828 (after payment of \$125,221 costs of issuance) were used to purchase certain Federal Securities securities. Those securities were deposited in an irrevocable trust with an escrow agent, U.S. Bank National Association, to provide for all future debt service payments on the 2004 Series A bonds. As a result, the 2004 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

The District advance refunded the 2004 Series bonds to reduce its total debt service payments over the next 10 years by \$0.54 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$0.44 million.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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, 2015, the outstanding principal balance on the 2002 Certificates amounts to \$4,575,000.

The certificates mature through 2028 as follows:

Year Ending June 30,	Principal	Interest	Total
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	330,000	90,487	420,487
2021-2025	1,805,000	303,311	2,108,311
2026-2028	1,205,000	52,227	1,257,227
Total	<u>\$ 4,575,000</u>	<u>\$ 898,391</u>	<u>\$ 5,473,391</u>

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 mature 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
2016	\$ 1,005,634	\$ 576,907	\$ 1,582,541
2017	1,057,175	558,406	1,615,581
2018	622,097	537,981	1,160,078
2019	590,000	515,630	1,105,630
2020	365,000	495,353	860,353
2021-2025	2,710,000	2,218,003	4,928,003
2026-2030	4,605,000	1,552,195	6,157,195
2031-2034	5,480,000	489,573	5,969,573
Total	<u>\$ 16,434,906</u>	<u>\$ 6,944,046</u>	<u>\$ 23,378,952</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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
2016	\$ 240,307
2017	240,307
Total	<u>\$ 480,614</u>

Postemployment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to four employees. 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 \$29,763 were recognized for retirees' health care benefits. The approximate accumulated future liability for the District at June 30, 2015, amounts to \$734,354. This amount was calculated based upon the four retirees receiving benefits multiplied by the District payment in effect at June 30, 2015, multiplied by the number of years of payments remaining.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to \$252,092.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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	20,468	88,289	-	-
Prepaid expenditures	528,171	-	-	-
Total Nonspendable	<u>573,639</u>	<u>88,289</u>	<u>-</u>	<u>-</u>
Restricted				
Educational programs	1,493,172	1,139,311	-	-
Capital projects	-	-	17,933,426	173,857
Debt services	-	-	-	-
Total Restricted	<u>1,493,172</u>	<u>1,139,311</u>	<u>17,933,426</u>	<u>173,857</u>
Unassigned				
Reserve for economic uncertainties	2,716,878	-	-	-
Remaining unassigned	4,289,619	-	-	-
Total Unassigned	<u>7,006,497</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,073,308</u>	<u>\$ 1,227,600</u>	<u>\$ 17,933,426</u>	<u>\$ 173,857</u>

	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ -	\$ -	\$ 25,000
Stores inventories	-	-	108,757
Prepaid expenditures	-	-	528,171
Total Nonspendable	<u>-</u>	<u>-</u>	<u>661,928</u>
Restricted			
Educational programs	-	-	2,632,483
Capital projects	-	1,645,607	19,752,890
Debt services	7,856,864	-	7,856,864
Total Restricted	<u>7,856,864</u>	<u>1,645,607</u>	<u>30,242,237</u>
Unassigned			
Reserve for economic uncertainties	-	-	2,716,878
Remaining unassigned	-	-	4,289,619
Total Unassigned	<u>-</u>	<u>-</u>	<u>7,006,497</u>
Total	<u>\$ 7,856,864</u>	<u>\$ 1,645,607</u>	<u>\$ 37,910,662</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, 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:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<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, 2015**

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, 2013 to June 30, 2015.

	Dental and Vision
Liability Balance, July 1, 2013	\$ 80,904
Claims and changes in estimates	1,474,373
Claims payments	<u>(1,459,275)</u>
Liability Balance, July 1, 2014	96,002
Claims and changes in estimates	1,413,656
Claims payments	<u>(1,419,086)</u>
Liability Balance, June 30, 2015	<u>\$ 90,572</u>
Assets available to pay claims at June 30, 2015	<u><u>\$ 702,874</u></u>

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

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

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Deferred Outflow of Resources</u>	<u>Proportionate Share of Deferred Inflow of Resources</u>	<u>Proportionate Share of Pension Expense</u>
CalSTRS	\$ 51,778,655	\$ 3,713,348	\$ 12,750,395	\$ 4,470,170
CalPERS	<u>12,409,447</u>	<u>2,113,057</u>	<u>4,264,025</u>	<u>1,102,946</u>
Total	<u><u>\$ 64,188,102</u></u>	<u><u>\$ 5,826,405</u></u>	<u><u>\$ 17,014,420</u></u>	<u><u>\$ 5,573,116</u></u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$3,713,348.

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 51,778,655
State's proportionate share of the net pension liability associated with the District	31,266,187
Total	<u>\$ 83,044,842</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.0886 percent.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

For the year ended June 30, 2015, the District recognized its proportionate share pension expense of \$4,470,170. In addition, the District also recognized pension expense and revenue of \$2,699,282 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,713,348	\$ -
Differences between projected and actual earnings on plan investments	-	12,750,395
Total	\$ 3,713,348	\$ 12,750,395

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 3,187,599
2017	3,187,599
2018	3,187,599
2019	3,187,598
Total	\$ 12,750,395

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 80,709,381
Current discount rate (7.60%)	\$ 51,778,655
1% increase	\$ 27,655,687

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) [and the Safety Risk 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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan(s) regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013 annual actuarial valuation report(s), Schools Pool Actuarial Valuation, [and the Risk Pool Actuarial Valuation Report, Safety,] 2013. This (These) report(s) and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$1,434,816.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$12,409,447. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.1093 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,102,946. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,434,816	\$ -
Adjustment due to differences in proportionate share	678,241	-
Net differences between projected and actual earnings on plan investments	-	4,264,025
Total	<u>\$ 2,113,057</u>	<u>\$ 4,264,025</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflow of resources will be amortized and recognized in pension expense as follows:

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2016	\$ (839,926)
2017	(839,926)
2018	(839,925)
2019	(1,066,007)
Total	<u>\$ (3,585,784)</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.50%)	\$ 21,769,002
Current discount rate (7.50%)	\$ 12,409,447
1% increase (8.50%)	\$ 4,588,594

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, 2015**

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 \$2,152,596, \$2,089,983 and \$1,961,799, for fiscal years 2015, 2014 and 2013, respectively. Those amounts represent 5.679 percent of annual payroll as of June 30, 2015, 5.541 percent of annual payroll as of June 30, 2014, 5.175 percent of annual payroll as of June 30, 2013. 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, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
CA Clean Energy	\$ 124,109	August, 2015
Charter Facilities - KIPP and Stonegate Expansion	350,818	August, 2015
Charter Facilities - ACE Phase II	297,716	October, 2015
CDBG Project - Santee	526,063	October, 2015
Technology Infrastructure - IT	176,064	June, 2016
Franklin New Construction	14,760,199	August, 2015
Hellyer Clean Up Lawn and Blacktop	143,379	October, 2015
Lairon School Modernization	1,477,952	August, 2015
	<u>\$ 17,856,300</u>	

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015, the District made payments of \$490,523 and \$150,392 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. 68, *Accounting and Financial Reporting for Pensions*, in the current year. The restatement does not include deferred inflows of resources, as this information was not available. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ 52,729,265
Restatement for GASB 68	<u>(74,638,259)</u>
Net Position - Beginning as Restated	<u>\$ (21,908,994)</u>

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual ¹	Variances -
	Original	Final		Favorable (Unfavorable) Final to Actual
REVENUES				
Local control funding formula	\$ 69,989,983	\$ 70,552,994	\$ 70,650,830	\$ 97,836
Federal sources	5,077,115	4,769,113	4,687,603	(81,510)
Other state sources	4,153,222	4,905,547	4,968,972	63,425
Other local sources	4,760,733	5,786,438	6,184,011	397,573
Total Revenues	83,981,053	86,014,092	86,491,416	477,324
EXPENDITURES				
Current				
Certificated salaries	43,288,772	42,455,363	42,725,497	(270,134)
Classified salaries	11,917,927	11,848,347	11,829,244	19,103
Employee benefits	16,970,962	16,365,127	16,045,232	319,895
Books and supplies	3,402,276	3,475,346	3,481,712	(6,366)
Services and operating expenditures	9,997,799	11,151,586	11,207,568	(55,982)
Other outgo	(2,854)	(102,678)	(130,044)	27,366
Capital outlay	162,900	1,459,943	1,472,893	(12,950)
Debt service				
Principal	547,500	1,185,332	1,122,177	63,155
Interest and other	655,053	655,722	655,722	-
Total Expenditures	86,940,335	88,494,087	88,410,001	84,086
Excess (Deficiency) of Revenues Over Expenditures	(2,959,282)	(2,479,995)	(1,918,585)	561,410
Other Financing Sources (Uses):				
Other sources	-	1,673,041	1,673,041	-
NET CHANGE IN FUND BALANCES	(2,959,282)	(806,954)	(245,544)	561,410
Fund Balance - Beginning	9,318,852	9,318,852	9,318,852	-
Fund Balance - Ending	\$ 6,359,570	\$ 8,511,898	\$ 9,073,308	\$ 561,410

¹ On behalf payments of \$2,152,596 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, 2015**

	Budgeted Amounts		Actual	Favorable
	Original	Final		(Unfavorable)
				Final to Actual
REVENUES				
Federal sources	\$ 4,478,571	\$ 4,745,377	\$ 4,822,608	\$ 77,231
Other state sources	359,555	360,949	380,530	19,581
Other local sources	835,752	743,011	697,232	(45,779)
Total Revenues	5,673,878	5,849,337	5,900,370	51,033
EXPENDITURES				
Current				
Classified salaries	1,658,317	1,714,151	1,735,610	(21,459)
Employee benefits	848,525	888,853	867,940	20,913
Books and supplies	2,424,891	2,164,910	2,401,316	(236,406)
Services and operating expenditures	469,242	728,880	723,666	5,214
Other outgo	307,315	312,768	325,953	(13,185)
Total Expenditures	5,708,290	5,809,562	6,054,485	(244,923)
NET CHANGE IN FUND BALANCES	(34,412)	39,775	(154,115)	(193,890)
Fund Balance - Beginning	1,381,715	1,381,715	1,381,715	-
Fund Balance - Ending	\$ 1,347,303	\$ 1,421,490	\$ 1,227,600	\$ (193,890)

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.0886%</u>
District's proportionate share of the net pension liability	\$ 51,778,655
State's proportionate share of the net pension liability associated with the District	<u>31,266,187</u>
Total	<u>\$ 83,044,842</u>
District's covered - employee payroll	<u>\$ 39,899,305</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>130%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
 CalPERS	
District's proportion of the net pension liability	<u>0.1093%</u>
District's proportionate share of the net pension liability	<u>\$ 12,409,447</u>
District's covered - employee payroll	<u>\$ 11,514,178</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>108%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 3,713,348
Contributions in relation to the contractually required contribution	<u>3,713,348</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered - employee payroll	 <u>\$ 39,899,305</u>
 Contributions as a percentage of covered - employee payroll	 <u>9.31%</u>
 CalPERS	
Contractually required contribution	\$ 1,434,816
Contributions in relation to the contractually required contribution	<u>1,434,816</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered - employee payroll	 <u>\$ 11,514,178</u>
 Contributions as a percentage of covered - employee payroll	 <u>12%</u>

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

SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 1,931,790
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	424,930
Title II, Part D, Enhancing Education Through Technology	84.318	14334	6,314
Title III, Limited English Proficient Student Program	84.365	14346	556,666
Individuals with Disabilities Education Act			
Basic Local Assistance	84.027	13379	1,453,836
Preschool Grant	84.173	13430	74,530
Preschool Local Entitlement	84.027A	13682	136,100
Mental Health Allocation Plan, Part B, Sec 611	84.027A	14468	102,549
Preschool Staff Development	84.173A	13431	888
Total U.S. Department of Education			<u>4,687,603</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Act:			
National School Lunch Program	10.555	13391/13396	3,646,050
Basic School Breakfast	10.553	13390	926,570
Especially Needy Breakfast	10.553	13526	11,092
Child and Adult Care Food Program	10.558	13666	238,896
Fair Market Value of Commodities	10.555	Not applicable	178,418
Total U.S. Department of Agriculture			<u>5,001,026</u>
Total Expenditures of Federal Awards			<u>\$ 9,688,629</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

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>
Rudy Rodriguez	President	2018
John Lindner	Vice President	2016
George Sanchez	Clerk	2016
Omar Torres	Member	2018
Thanh Tran	Member	2018

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Dr. John R. Porter, Jr.	District Superintendent
Megan Lamken	Assistant 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, 2015**

	Final Report	
	Second Period Report	Annual Report
DISTRICT		
Regular ADA		
Transitional kindergarten through third	3,775.50	3,773.13
Fourth through sixth	2,899.78	2,895.43
Seventh and eighth	1,373.68	1,368.47
Total Regular ADA	<u>8,048.96</u>	<u>8,037.03</u>
Extended Year Special Education		
Transitional kindergarten through third	4.06	4.06
Fourth through sixth	2.97	2.97
Seventh and eighth	2.09	2.09
Total Extended Year Special Education	<u>9.12</u>	<u>9.12</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.93	0.92
Seventh and eighth	0.01	0.88
Total Special Education, Nonpublic, Nonsectarian Schools	<u>0.94</u>	<u>1.80</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.19	0.19
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.19</u>	<u>0.19</u>
Total District ADA	<u>8,059.21</u>	<u>8,048.14</u>
BRIDGES CHARTER SCHOOL		
Regular Classroom-based ADA		
Seventh and eighth	581.18	582.88
Total Regular ADA	<u>581.18</u>	<u>582.88</u>
Regular Non-Classroom-based ADA		
Seventh and eighth	0.26	0.26
Total Regular ADA	<u>0.26</u>	<u>0.26</u>
Total Charter School ADA	<u>581.44</u>	<u>583.14</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015**

DISTRICT

Grade Level	1986-87	Reduced	2014-15	Number of Days		Status
	Minutes	1986-87	Actual	Traditional		
	Requirement	Requirement	Minutes	Calendar		
Kindergarten	36,000	35,000	36,000	180		Compiled
Grade 1	50,400	49,000	52,600	180		Compiled
Grade 2	50,400	49,000	52,600	180		Compiled
Grade 3	50,400	49,000	52,600	180		Compiled
Grade 4	54,000	52,500	54,380	180		Compiled
Grade 5	54,000	52,500	54,610	180		Compiled
Grade 6	54,000	52,500	54,380	180		Compiled
Grade 7	54,000	52,500	55,280	180		Compiled
Grade 8	54,000	52,500	55,280	180		Compiled

BRIDGES CHARTER SCHOOL

Grade Level	1986-87	Reduced	2014-15	Number of Days		Status
	Minutes	1986-87	Actual	Traditional		
	Requirement	Requirement	Minutes	Calendar		
Grade 7	54,000	52,547	58,224	180		Compiled
Grade 8	54,000	52,547	58,224	180		Compiled

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, 2015**

There were no adjustments to the Unaudited Actual Financial Report, which require reconciliation to the audited financial statements as of June 30, 2015.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

	(Budget) 2016 ¹	2015 ³	2014	2013
GENERAL FUND				
Revenues	\$ 94,291,489	\$ 88,644,012	\$ 81,815,456	\$ 77,354,503
Other sources	-	1,673,041	165,446	-
Total Revenues and Other Sources	94,291,489	90,317,053	79,890,919	75,392,704
Expenditures	90,596,641	90,562,597	82,243,028	76,703,629
INCREASE IN FUND BALANCE	\$ 3,694,848	\$ (245,544)	\$ (262,126)	\$ 650,874
ENDING FUND BALANCE	\$ 12,768,156	\$ 9,073,308	\$ 9,318,852	\$ 9,580,978
AVAILABLE RESERVES ²	\$ 10,701,346	\$ 7,006,497	\$ 6,369,220	\$ 7,023,595
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	11.81%	7.74%	7.74%	9.16%
LONG-TERM OBLIGATIONS	\$ 177,761,401	\$ 184,353,065	\$ 198,562,614	\$ 93,142,516
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	8,421	8,641	9,042	9,160

The General Fund balance has decreased by \$507,670 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$3,694,848. 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 two operating deficits over the past two years, but anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have increased by \$91,210,549 over the past two years due to new bond issuances in 2013-14 and recognition of pension liability resulting from implementation of GASB 68 in 2014-15.

Average daily attendance has decreased by 519 over the past two years. The District anticipates a further decrease of 220 ADA during fiscal year 2015-2016.

¹ Budget 2016 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 \$2,152,596, \$2,089,983 and \$1,961,799, in the General Fund have been included in revenues, expenditures and the calculation of available reserves percentage for fiscal years ending June 30, 2015, 2014, and 2013, 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, 2015**

<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, 2015

	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 1,432,824	\$ -	\$ 1,432,824
Receivables	246,365	-	246,365
Total Assets	\$ 1,679,189	\$ -	\$ 1,679,189
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 33,582	\$ -	\$ 33,582
Total Liabilities	33,582	-	33,582
Fund Balances:			
Restricted	1,645,607	-	1,645,607
Total Liabilities and Fund Balances	\$ 1,679,189	\$ -	\$ 1,679,189

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, 2015**

	Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
REVENUES			
Other local sources	\$ 2,473,909	\$ 2	\$ 2,473,911
EXPENDITURES			
Current			
Facility acquisition and construction	1,722,125	2	1,722,127
Debt service			
Principal	142,500	-	142,500
Interest and other	67,224	-	67,224
Total Expenditures	1,931,849	2	1,931,851
NET CHANGE IN FUND BALANCES	542,060	-	542,060
Fund Balance - Beginning	1,103,547	-	1,103,547
Fund Balance - Ending	\$ 1,645,607	\$ -	\$ 1,645,607

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

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:		\$ 9,739,350
Federal Reimbursement of Qualified School Construction	Not Available	(229,139)
Fair Market Value of Commodities	10.558	178,418
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,688,629</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, 2015

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

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**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, 2015, 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 30, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 30, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE 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, 2015. 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, 2015.

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.



Palo Alto, California
November 30, 2015



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 *2014-2015 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting* 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, 2015.

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 *2014-2015 Guide for Annual Audits of K-12 Local Educational Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about 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.

Basis for Qualified Opinion on School Accountability Report Card and Unduplicated Local Control Funding Formula Pupil Counts

As described in the accompanying schedule of findings and questioned costs, Franklin-McKinley School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts (2015-001) and School Accountability Report Card (2015-002). Compliance with such requirements is necessary, in our opinion, for Franklin-McKinley School District to comply with the requirements applicable to that program.

Qualified Opinion on Accountability Report Card and Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Franklin-McKinley School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Programs

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, 2015, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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:

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes

	<u>Procedures Performed</u>
Local Control Accountability Plan	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

The District does not offer continuation education, early retirement incentive, juvenile court schools, regional occupational centers, adult education, before school education and safety Program, and charter school facility grant program. Therefore, we did not perform procedures related to these programs.

In addition, 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 these programs are below testing threshold.



Palo Alto, California
November 30, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

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?	
Identification of major federal programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.365</u>	<u>English Language Acquisition State Grants</u>
<u>84.027</u>	<u>Special Education</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:	
Unmodified for all programs except for the following programs which were qualified.	
Name of Program:	
<u>School Accountability Report Card</u>	
<u>Unduplicated Local Control Funding Formula Pupil Counts</u>	

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	Unduplicated Local Control Funding Formula Pupil Counts
72000	School Accountability Report Card

2015-001 Code: 40000 Unduplicated Local Control Funding Formula Pupil Counts

Criteria or Specific Requirements

In accordance with procedure W.1.b in *Guide for Annual Audits of K-12 local Education Agencies and State compliance Reporting 2014-15*, a representative sample from the students that are only English Learner as identified under the “ELAS Designation” column should be verified to supporting documentation that indicates the student was eligible for the designation.

Condition

During our testing for students that are identified as only ELAS, we selected 20 samples and noted that two identified as ELAS, in fact, are not ELAS students. We then selected 20 more samples and noted additional two exceptions. After the finding, a 100 percent ELAS students’ status was examined and total 19 students’ status was corrected.

Questioned Costs

Total question cost \$16,903.

The reclassification of 19 students’ status from ELAS to regular students, results in 0.13% decrease of “Unduplicated Pupil Percentage” from 87.66% to 87.53% and a \$56,043 decrease in “Target Entitlement” and “GAP”.

Total Question Costs = \$56,043 x Statewide Gap Funding Rate 30.16016% = \$16,903.

Context

The above condition pertains to the testing of 2014-15 ELAS students only.

Effect

Incorrect reporting can resulted in calculation error in LCFF funding.

Cause

“1.18 – FRPM / English Learner / Foster Youth – Student List” discloses both “Status Date” and “Effective Start Date” fields in the report. These two fields cause the general confusion, because “Effective Start Date” was used in CALPADS as “the date any status was created in CALPADS”, and this data is also used to pull ELAS students while the “Status Date” should be used. After the communication between the District and CALPADS administrative personnel, the CALPADS and its vendors feel that the major issues with the new design/logic have been identified and corrected, so going forward should not be an issue in reporting.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Recommendation

Periodic review and reconciliation of the District's data and CALPADS data should be performed to ensure the integrity of data.

Corrective Action Plan

After meeting and consultation with State CALPAD's administrative personnel and their vendor supporting staff, software glitch has been rectified and the corrections have been made. After the correction, the district has implemented validation process and will review and reconcile data periodically to ensure the accuracy of the data for certification and future audits.

2015-002 **Code: 72000** School Accountability Report Card

Criteria

Per provisions of subdivision (b)(9) of Education Code Section 33126, the information in the School Accountability Report Card is required to be consistent with the information in the FIT.

Condition

Three out of the five schools selected for SARC testing the FIT report did not match the SARC report.

Questioned Costs

There are no questioned costs associated with this condition because there is no funding directly related to school accountability report cards.

Context

The above condition pertains to the 2014-15 SARC for each of the District's schools that are subject to monitoring under the Williams settlement.

Effect

Failure to update the SARC report to support the most current FIT report will result in a violation of the SARC accountability.

Recommendation

Interdepartmental communication should ensure that information is shared across departments.

Corrective Action Plan

After examining the SARCS for each of the school sites that were posted on the district website, it was determined that some of the FIT reports were not the most current. The FIT reports were completed for each of the 17 schools in the district in 2014. However, while some were included in to the SARC, others were not. It is the responsibility of the Business Department to enter the FIT report in to the SARC template on Document Tracking Systems. Then it is the responsibility of the Educational Services Department to review each of the SARCS before posting them online to be assured that the current FIT report, as well as all other current data is entered in to the SARC.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

In order to prevent this condition from occurring in the future, the Director of Maintenance Operations will assure that the FIT report is completed on each school, and entered in to the SARC on Document Tracking Systems annually. The Director of Maintenance Operations will notify the Director of State & Federal Projects once the FIT reports have been completed and entered in to Document Tracking Systems. The Director of State & Federal Projects will check the SARC for each school site in DTS to assure that the current year's FIT has been entered. The Director of S&F Projects will notify DTS that the SARC are ready for translation and to be posted on the website. This all needs to occur between July 1st and December 31st annually, in order to meet the January deadline for posting the SARCs on the district website.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

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