



Financial and Performance Audits  
2016 Measure H Fund  
June 30, 2020

Franklin-McKinley School District

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Financial Audit  
2016 Measure H Fund  
June 30, 2020

# Franklin-McKinley School District



## Independent Auditor's Report

Governing Board and  
Citizens' Oversight Committee  
Franklin-McKinley School District  
San Jose, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Franklin-McKinley School District's (the "District"), 2016 Measure H Fund (the "Fund"), as of and for the year ended June 30, 2020, and the related notes to the 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 an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 financial statements, whether due to error or fraud. 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of 2016 Measure H Fund of Franklin-McKinley School District as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the Building Fund specific to 2016 Measure H are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters**

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2020 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



San Mateo, California  
December 2, 2020

Franklin-McKinley School District  
2016 Measure H Fund  
Balance Sheets  
June 30, 2020

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Assets	
Cash and investments	\$ 20,927,748
Accounts receivable - interest	86,958
Due from other funds	<u>2,228</u>
Total assets	<u><u>\$ 21,016,934</u></u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable - vendor	\$ 391,789
Fund Balance	
Restricted for capital projects	<u>20,625,145</u>
Total liabilities and fund balance	<u><u>\$ 21,016,934</u></u>

Franklin-McKinley School District  
 2016 Measure H Fund  
 Statement of Revenues, Expenditures, and Changes in Fund Balance  
 Year Ended June 30, 2020

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Revenues	
Interest	\$ 498,267
All other local revenue	96,414
Unrealized gain on county cash	<u>246,111</u>
Total revenues	<u>840,792</u>
Expenditures	
Current expenditures	
Classified salaries	399,421
Employee benefits	153,841
Supplies and equipment	827,452
Services and operating expenditures	294,015
Capital outlay	<u>11,833,501</u>
Total expenditures	<u>13,508,230</u>
Net Change in Fund Balance	(12,667,438)
Fund Balance - Beginning	<u>33,292,583</u>
Fund Balance - Ending	<u>\$ 20,625,145</u>

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the 2016 Measure H Fund (the Fund) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

**Financial Reporting Entity**

The financial statements include only the 2016 Measure H Fund of the Franklin-McKinley School District. This Fund was established to account for the expenditures of general obligation bonds issued under the Measure H Bond Election of 2016. These financial statements are not intended to present fairly the financial position and results of operations of the Franklin-McKinley School District as a whole, in compliance with accounting principles generally accepted in the United States of America.

**Fund Accounting**

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Basis of Accounting**

The Fund is accounted for using a 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.

**Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.



**Fund Balance - 2016 Measure H Fund**

As of June 30, 2020, the fund balance is classified as restricted.

Restricted fund balance is the amount 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.

**Encumbrances**

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

**Use of Estimates**

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

## **Note 2 - Investments**

### **Investment in County Treasury**

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

### **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 is 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 this investment is approximately \$20,928,000 with an average maturity of 517 years.

### **Fair Value Measurements**

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1 inputs – quoted prices in active markets for identical assets.
- Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized - Investment in the county treasury investment pool are not measured using the input levels above because the participant's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. The County Treasury Investment Pool has a daily redemption frequency period and a one-day redemption notice period. Accordingly, the Fund's investment in the Santa Clara County Treasury is uncategorized.

**Note 3 - Commitments and Contingencies**

**Construction Commitments**

As of June 30, 2020, the District had the following commitments with respect to the unfinished capital projects which are funded by 2016 Measure H:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Bridges New Construction/Modernization	\$ 2,779	9/1/2020
Communications Hill	690,323	8/1/2024
Dahl Modernization	486,143	8/30/2021
District Modernization	973,948	10/1/2020
District Technology Infrastructure	31,852	8/30/2021
Energy Conservation(Monitor & Verify )	246,088	8/30/2021
Franklin New Construction/ Modernization	542,086	8/30/2021
Hellyer New Construction/ Modernization	462,485	8/30/2021
Kennedy New Construction/ Modernization	422,097	8/30/2021
Lairon Modernization	377	8/30/2021
Los Arboles New Construction/ Modernization	477,904	8/30/2021
Mckinley Modernization/ Security Safety	342,344	8/30/2021
Meadows Modernization	384,745	8/30/2021
Ramblewood Modernization	344,686	8/30/2021
Santee Modernization	115,864	8/30/2021
Shirakawa Modernization/ Security Safety	524,940	8/30/2021
Stonegate Modernization/ Security Safety	4,031,592	8/30/2021
Sylvandale Modernization	3,549,558	1/31/2021
Transportation Site Modernization	123,298	8/30/2021
Windmill Modernization	6,159,981	10/1/2020
	<u>\$ 19,913,090</u>	



Independent Auditor's Report  
June 30, 2020

**Franklin-McKinley School**  
**District Franklin-McKinley School District**



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

Governing Board and  
Citizens' Oversight Committee  
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 accompanying financial statements of the Franklin-McKinley School District's (the "District") 2016 Measure H Fund (the "Fund"), as of and for the year ended June 30, 2020, and the related notes of the financial statements, and have issued our report thereon dated December 2, 2020.

***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Fund specific to 2016 Measure H are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2020, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 2016 Measure H Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

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

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

San Mateo, California  
December 2, 2020

None reported.



Performance Audit  
2016 Measure H Fund  
June 30, 2020

# Franklin-McKinley School District





## Independent Auditor's Report on Performance

Governing Board and  
Citizens' Oversight Committee  
Franklin-McKinley School District  
San Jose, California

We were engaged to conduct a performance audit of the Franklin-McKinley School District's (District), 2016 Measure H Fund (the "Fund") for the year ended June 30, 2020.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine the procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control.

The results of our tests indicated that the District, in all significant respects, expended 2016 Measure H fund only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

A handwritten signature in black ink that reads "Eide Bailly LLP".

San Mateo, California  
December 2, 2020

### **Authority for Issuance**

The 2016 Measure H Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law.

The District received authorization at an election held on June 7, 2016, to issue bonds of the District in an aggregate principal amount not to exceed \$67,400,000 to finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2016 Authorization). All authorized amounts have been issued.

### **Purpose of Issuance**

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond proposition submitted at the Election, which include financing the repair, upgrading, acquisition, construction and equipping of certain District property and facilities.

### **Authority for the Audit**

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

**Objectives of the Audit**

1. Determine whether expenditures charged to the Fund have been made in accordance with the bond project list approved by the voters through the approval of 2016 Measure H.
2. Determine whether salary transactions, charged to the Fund were in support of 2016 Measure H and not for District general administration or operations.

**Scope of the Audit**

The scope of our performance audit covered the period of July 1, 2019 to June 30, 2020. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2020, were not reviewed or included within the scope of our audit or in this report.

**Methodology**

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1, 2019 through June 30, 2020, for the 2016 Measure H Fund. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and 2016 Measure H as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2019 and ending June 30, 2020, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included 65 vendor transactions totaling \$9,645,714. This represents 74% of the total vendor expenditures of \$12,954,968. We examined payroll related expenditures aggregating \$284,850 which is 51% of the total Measure H Fund payroll related expenditures of \$553,262. In aggregate, we tested 75% of total Measure H expenditure of \$13,508,230.
3. We verified that funds from the 2016 Measure H Fund were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held in the 2016 Measure H Fund were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

**Conclusion**

The results of our tests indicated that, in all significant respects, the Franklin-McKinley School District has properly accounted for the expenditures held in the 2016 Measure H Fund and that such expenditures were made for authorized Bond projects in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.