Financial Statements
June 30, 2023

Franklin-McKinley School District

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Restatement and Reissuance

As discussed in Note 16, subsequent to the issuance of the District's 2023 financial statements and our report thereon dated December 15, 2023, we became aware that the financial statements were misstated for errors related to the determination of which lease agreements are subject to GASB 87, resulting in an understatement of lease receivables and deferred inflows of resources within the general fund. In our original report, we expressed unmodified opinions on the 2023 financial statements, and our opinions on the revised statements, as expressed herein, remain unmodified.

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Correction of Error

As discussed in Note 15 to the financial statements, certain errors including understatement of liabilities, and understatement of accounts receivables as of June 30, 2022, were discovered by management of the District during the current year. Accordingly, a restatement has been made to the governmental activities net position, and the fund balances of the general fund, cafeteria fund, and building fund as of June 30, 2022, to correct the errors. Our opinions are not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining nonmajor governmental fund financial statements, local education agency organization structure, schedule of average daily attendance, schedule of instructional time, reconciliation of annual financial and budget report with audited financial statements, schedule of financial trends and analysis, schedule of charter schools, and the combining schedules of the nonmajor governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining nonmajor governmental fund financial statements, local education agency organization structure, schedule of average daily attendance, schedule of instructional time, reconciliation of annual financial and budget report with audited financial statements, schedule of financial trends and analysis, schedule of charter schools, and the combining schedules of the nonmajor governmental funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023 and February 7, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Menlo Park, California
December 15, 2023, except for Note 5, Note 15 and Note 16, for which the date is February 7, 2024

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, 2023. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

The Financial Statements

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

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

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

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

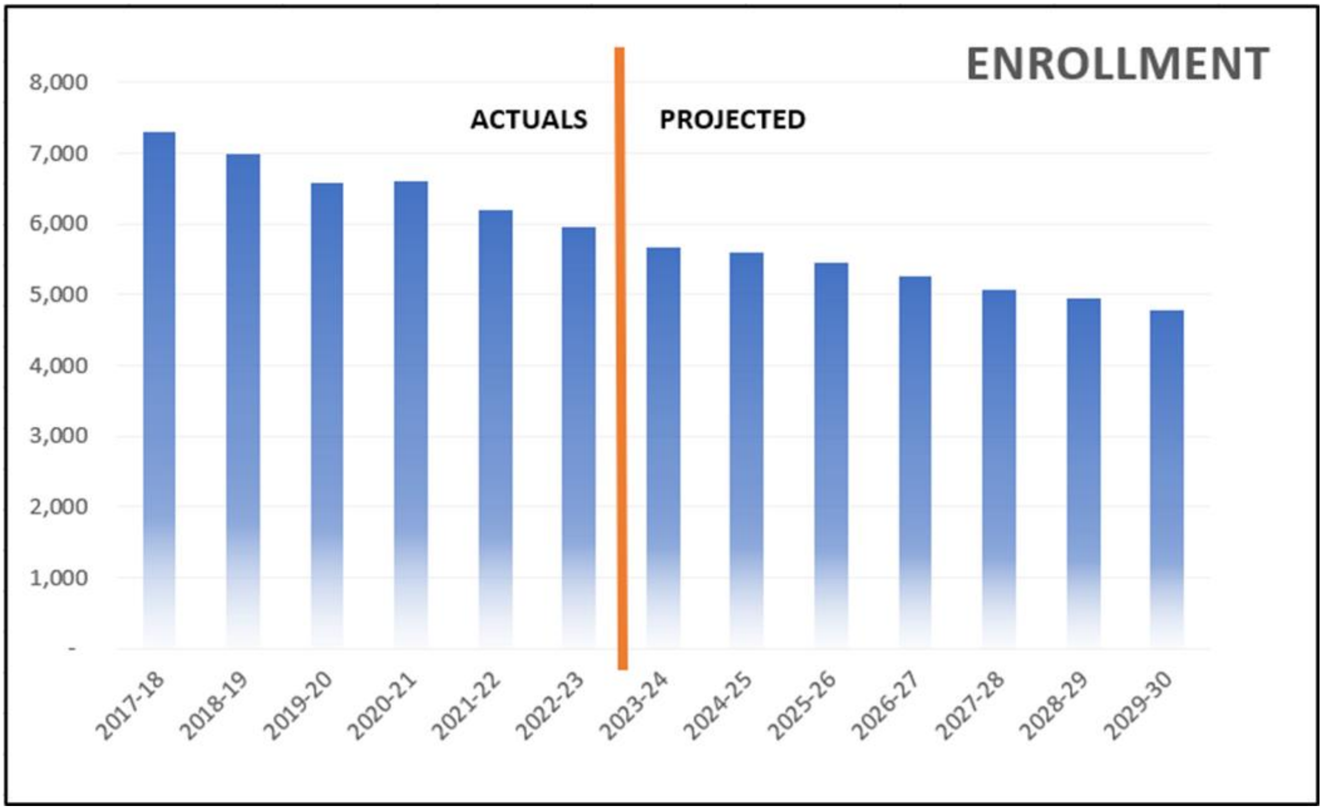
Reconciliation of the Governmental Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the District.

Financial Highlights of the Past Year

The District's primary source of operating revenue remains to be the State's Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding since 2013-14. State allocations under LCFF create funding targets based on student characteristics and provide greater flexibility to use these funds to improve student outcomes. LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that are calculated based on student demographic factors.

Our funding for LCFF has been fueled by our high Unduplicated Pupil Percentage ("UPP"). As of June 2023, our UPP was certified by the State to be 79.94%. The UPP is based on the percentage of our students who are either (1) English Learners, (2) low-income, or (3) foster youth. The term "unduplicated" means that the pupil is counted only once, even if the pupil meets more than one of these criteria. However, our enrollment has continued to decline, limiting the new funding we receive each year. Since 2017-18 enrollment has declined 18% by the end of 2022-23 and is projected to decline another 16% by the end of fiscal 2029-30.



Despite the declining enrollment, the District has been able to maintain its minimum reserve policy percentage of 5%, which excludes portions of the ending funding balance committed to specific board-approved plans. Going forward, the Governing Board is committed to making the necessary operating reductions required to maintain its reserve. This includes continued Budget Committee meetings, which include representatives of various stakeholder groups, including the Board, unions, and district leadership, as well as continued review and discussion of the District's Multi-Year Projections multiple times during the year.

As of June 2023, the District's total ending fund balance is $49.0, of which $18.0 million is unrestricted and $5.8 million is committed to deficit spending mitigation measures, technology replacement, supplemental employee retirement plan, and future curriculum adoption.

Total current-year general fund revenues in 2022-23 exceeded current-year expenditures by $18.0 million. This has been fueled by many of the one-time dollars received by the District. This includes COVID relief funds, the new Arts & Music Emergency Block Grant, Educator Effectiveness Funds, and Learning Recovery Block Grant funds.

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.

Reporting the District as A Whole

The Statement of Net Position and the Statement of Activities

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

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

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

In the *Statement of Net Position* and the *Statement of Activities*, we present the governmental activities, all of the District's services are reported in this category. This includes the education of transitional kindergarten through grade eight students, the operation of the different educational programs and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as certificates of participation and general obligation bonds, finance these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

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

The District as A Whole

Net Position

Table 1

(Amounts in millions)	Govermental Avtivities Restated 2023	Restated 2022
Assets		
Current and other assets	$ 114.6	$ 93.5
Capital assets	181.5	182.1
Total assets	296.1	275.6
Deferred Outflows of Reserves		
Deferred charge on refunding	4.5	4.6
Deferred outflow related to pension	25.9	18.9
Total deferred outflows	30.4	23.50
Liabilities		
Current liabilities	22.1	16.8
Current portion of long-term debt	7.5	7.5
Long-term debt	257.4	230.9
Total liabilities	287.0	255.2
Deferred Inflows of Reserves		
Deferred inflow related to leases	4.7	5.3
Deferred inflow related to pension	14.5	47.7
Total deferred outflows	19.2	53.0
Net Position		
Net investment in capital assets	44.8	36.6
Restricted	37.0	21.3
Unrestricted	(61.5)	(67.0)
Total net position	$ 20.3	$ (9.1)

The District's net position was a surplus $20.3 million and a deficit of $9.1 million of June 30, 2023, and 2022, respectively. Of these amounts, negative $61.5 million and negative $67.0 million were unrestricted for the combined governmental funds for each respective year. The negative unrestricted net position is primarily the result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

The negative $61.5 million and negative $67.0 million for fiscal years 2022-2023 and 2021-2022 in unrestricted net deficit represent the accumulated results of all past years' operations. It means that if we had to pay off all of our bills at those year-end dates, including all of our non-capital liabilities (compensated absences and pension liability as examples); we would be short by $61.5 million and $67.0 million left from governmental activities for fiscal years 2022-2023 and 2021-2022, respectively.

In 2022-2023, current assets increased by $21.1 million and current liabilities increased by $5.3 million, from 2021-2022.

Capital assets increased by $0.6 million.

Table 2

(Amounts in millions)	Governmental Acvtivities Restated 2023	2022
Revenues		
Charges for services and sales	$ 0.1	$ -
Operating grants and contributions	43.9	31.2
Capital contributions	-	-
General revenues		
Property tax, federal revenue	100.1	96.3
Other general revenues	20.3	3.6
Total revenues	164.4	131.1
Expenses		
Instruction related	92.7	81.9
Pupil services	15.2	12.5
Administration	8.8	6.9
Plant services	11.4	11.6
Facilities acquisition and construction	-	-
Enterprise services	1.3	-
Ancillary	0.3	0.2
Debt service	5.5	6.9
All other services	-	0.1
Total expenses	135.2	120.1
Change in Net Position	29.2	11.0
Net Position - Beginning	(9.1)	(20.1)
Net Position - Ending	$ 20.1	$ (9.1)

Changes in Net Position

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

Governmental Activities

As reported in the Statement of Activities, the cost of all of our governmental activities was $135.2 million and $120.1 million for 2022-2023 and 2021-2022, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only $120.4 million and $99.9 million for 2022-2023 and 2021-2022. This is approximately 73% and 76% of the total revenue in 2022-2023 and 2021-2022, respectively. The cost paid by those who benefited from the programs was $0.1 million and $0.0 million for 2022-2023 and 2021-2022, The program cost subsidized by other governments and organizations with grants and contributions of $43.9 million and $31.2 million for 2022-2023 and 2021-2022, respectively.

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

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

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

Table 3

(Amounts in millions)	Net Cost	
	2023	2022
Instruction	$ 57.4	$ 50.4
Instruction related	10.0	8.8
Pupil services	5.0	6.9
Administration	6.7	5.3
Facility acquisition and construction	-	-
Anciliary services	-	-
Plant servies	5.2	10.4
Enterprise servies	1.3	-
Interest on long-term	5.5	6.9
Other	-	(1.7)
Totals	$ 91.1	$ 87.0

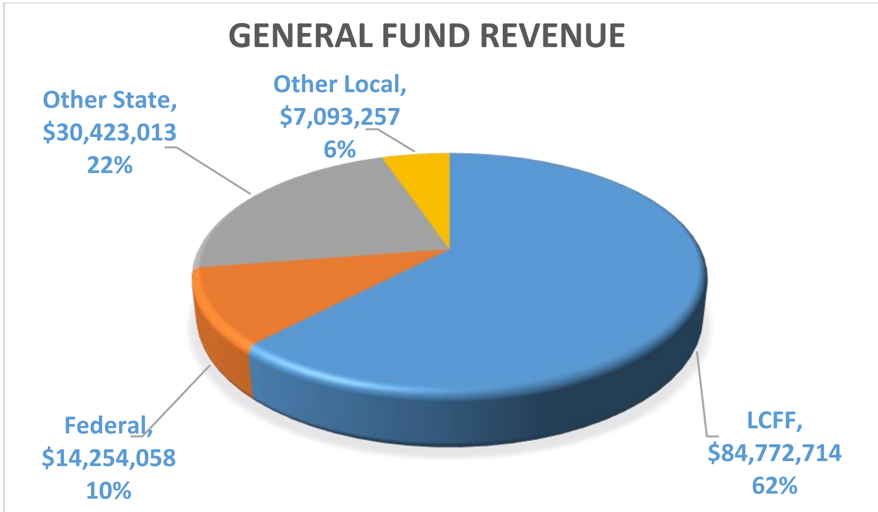
The District's Funds

As the District completed this year, our governmental funds reported a combined fund balance of $88.3 million, which was an increase of $15.1 million from last year. The primary reason for the increase is related to spending down various bond projects.

General Fund Budgetary Highlights

The Education Code requires that all local educational agencies adopt a budget by July 1, and then twice a year submit to their District Business Advisory Services in the County Offices of Education interim financial reports. The interim reports reflect updates to the District budget as grants are awarded and as the District revises its budget to reflect changes in revenues and expenditures. The final amendment to the budget was adopted in June 2022.

The District prepared the fiscal year 2022-2023 original adoption budget when the carryovers from fiscal year 2021-2022 were not known. The carryovers, however, were included in the fiscal year 2022-2023 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 2023-2024 adoption budget was prepared. At the end of the fiscal year, however, unspent revenues for some categorical programs will be deferred to the new fiscal year in accordance with generally accepted accounting principles and the requirements under the categorical programs. A schedule showing the District's original and final budget amounts compared with actual final amounts is provided in the required supplementary information, succeeding the financial statement section.

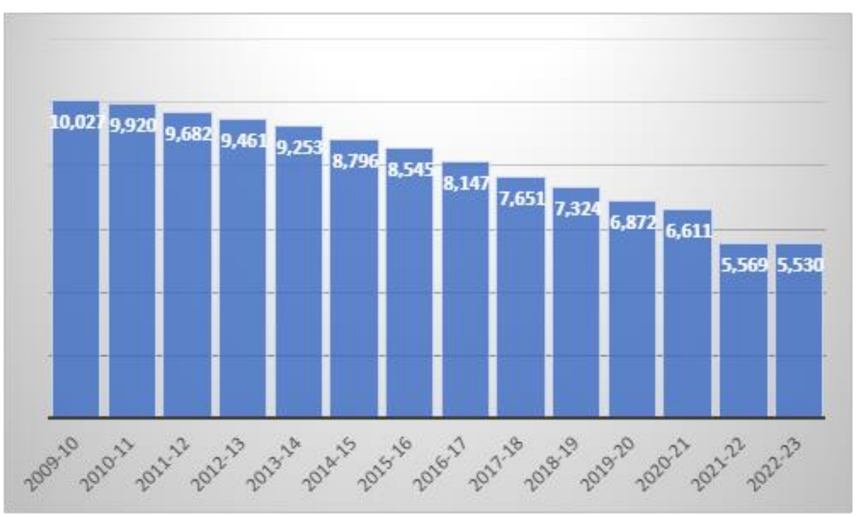


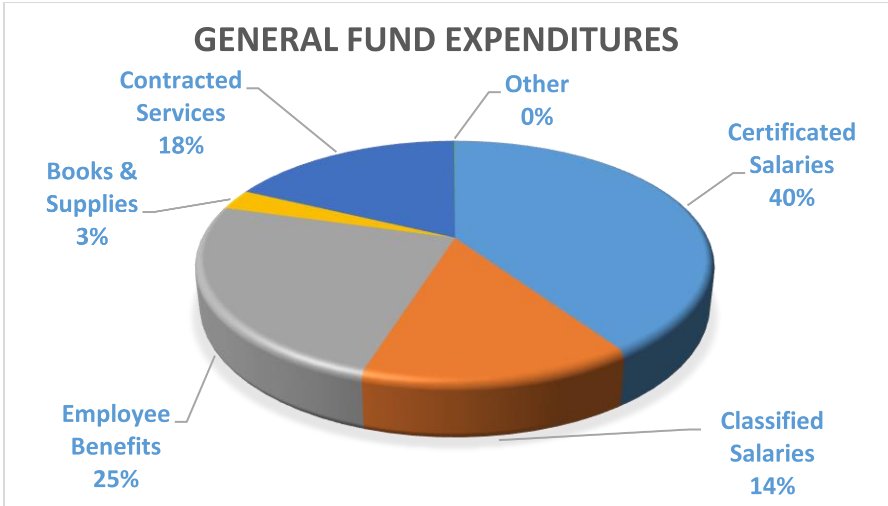
General Fund Revenues

The General Fund is the operating fund of the District. Under the Local Control Funding Formula (LCFF), school districts received funding based on average daily attendance by grade level, and other demographic factors of the students (e.g., English Learner, eligible for free or reduced meal plans, etc.,). For fiscal year 2022-2023, the District received $136.6 million in total revenue from federal, state and local sources. State-controlled revenue (LCFF plus other state revenue) represents over 84% of the District's General Fund income. The following is a graphic presentation of revenues by source used to fund the District's operating activities:

Enrollment /ADA Trends

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





General Fund Expenditures

The largest components of the District's expenditures were salaries and benefits of teachers and support personnel. In fiscal year 2022-2023, the salaries and related benefits totaled $94.8 million, which accounted for 79% of the total expenditures of $119.4 million for the General Fund.

Capital Asset and Debt Administration

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2023, the District had $181.5 million in capital assets, representing a net decrease of $0.6 million over $182.1 million in 2022.

Table 4

(Amounts in millions)	Governmental 2023	Governmental 2022
Capital Assets		
Land	$ 1.6	$ 1.6
Construction in progress	10.6	45.6
Buildings and improvements	286.1	240.8
Furniture and equipment	10.7	10.2
Total assets	309.0	298.2
Accumulated Depreciation		
Buildings and improvements	(121.2)	(110.3)
Furniture and equipment	(6.3)	(5.8)
Total accumulated depreciation	(127.5)	(116.1)
Net Capital Assets		
Land	1.6	1.6
Construction in progress	10.6	45.6
Buildings and improvements	164.9	130.5
Furniture and equipment	4.4	4.4
Totals	$ 181.5	$ 182.1

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

Completed during 2022-23:

- Lairon Perimeter Fencing and a New Marquee Installation.
- Installation of solar canopies at Franklin and Santee.
- Pour in place fall protection district-wide at play structures.
- Modernization of Meadows Front Office to better control the entrance and exit of people.
- Addition and upgrade of outdoor learning and eating areas.
- HVAC upgrades to various sites to improve air quality.
- General site improvements (i.e., landscaping, turf/fields, parking lot and blacktop resurfacing, etc.).
- Playground asphalt replacement at Shirakawa.
- Addition of playground shade structures at Dahl.
- Installation of new perimeter fencing at Stonegate.
- Disposal of portables in white yard fleet.
- Increased internet bandwidth with AT&T.
- District Office Renovation (Ed Services & Enrollment Center).
- Sylvndale Replacement of Perimeter Interior Fence.
- Installation of Privacy Slats on.

Construction in Progress during 2022-2023:

- Kennedy Beautification project, which includes an admin office renovation, new playground areas, additional security cameras, and trash enclosure.
- McKinley Asphalt and concrete replacement.
- McKinley and Santee turf replacement.
- Santee Kinder playground improvement.
- 2nd phase of projector upgrades.
- Restroom upgrades at Dahl.
- Upgrade security solutions districtwide to add push-button security.

- Kitchen upgrades at Bridges.
- IT Cabling project.
- Lighting Upgrades distinct wide.
- Kennedy Admin.

Refer to Capital Assets Note 4 in the financial statements.

Long-Term Obligations

At the end of this year, the District had $264.9 million in outstanding long-term liabilities versus $239.1 million last year, a decrease of $25.8 million.

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

We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

Table 5

	Governmental	
(Amounts in millions)	**2023**	**2022**
General obligation bonds	$ 145.6	$ 152.5
Accretion to date	7.2	8.1
Finance Purchase	11.4	12.0
Bond premium	6.2	6.7
Certificates of participation	-	-
Retiree health care benefit	1.2	1.3
Accumulated vacation - net	0.5	0.5
Pension liabilities	91.2	57.5
Early retirement incentive	1.6	0.5
Totals	$ 264.9	$ 239.1

Net Pension Liability (NPL)

GASB Statements No. 68 and No. 71 introduce requirements for accrual-basis recognition by state and local governments of employer costs and obligations for pensions. Under the accounting standards, if the present value of benefits earned by all employees participating in the CalSTRS or CalPERS pension plan exceeds the resources accumulated by the pension plan to benefits, LEAs must now report in their government wide financial statements their proportionate share of the plan's net pension liability. See Note 12 for more detailed information. At year-end, the District has a net pension liability of $91.2 million versus $57.5 million last year, an increase of $33.7 million, or 58.6%.

Economic Factors and Next Year's Budget

The majority of the District's unrestricted general fund revenues are derived from State and Local income sources through state aid, property taxes, and other state funding as well as one-time funds received under the CARES Act and other Federal assistance programs enacted due to the pandemic. The District has been on a steady course to continuously improve in academic achievement, closing the achievement gap, improving its facilities, and meeting the priorities of the School Board and community. It is imperative that the District continue this course of success. One of the major components of State funding is the Local Control Funding Formula (LCFF). At this point, the LCFF is fully implemented financially. Achieving this full implementation of LCFF means growth in funding in the future years will be closely tied to COLA, which is projected to be 8.22%, 3.94%, and 3.29% for 2023-24, 2024-25, and 2025-26, respectively. There is concern due to the slowdown of the economy that, the State will not be able to fully fund a COLA increase the LCFF in the future years. FMSD administration does have adequate reserves to offset a modest loss of COLA funding to avoid disrupting classroom support services in the short term. Larger decreases in COLA will require cuts to programs and ultimately layoffs. The district does expect some level of layoffs as the one COVID relief funds are expected to be fully exhausted by the end of FY 2023-24.

As of June 2023, LCFF represents approximately 61.8% of the total revenue the district expects to receive for the fiscal year 2022-23. COLA of 8.22% for this coming year allows the district more flexibility to manage the longer-lasting impacts of the pandemic, rising operating costs due to inflation, and other factors, including but not limited to, additional focus on learning recovery, social and emotional needs of students and staff, increased contributions to the pension programs (i.e., CalSTRS and CalPERS), impacts of labor negotiations, and rising employer paid unemployment insurance to name a few.

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

The District continues to utilize new ongoing Expanded Learning Opportunities Program funding to expand the learning day to 9 hours and provide free learning camps during extended breaks such as Winter Break, Spring Break, and Summer Break. To expand the learning day to 9-hours, the District is now offering more after-school care services that incorporates learning opportunities for our students. These after-school opportunities include free tutoring, art and music enrichment, sports, team building, homework labs, and others.

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

The upcoming years will be challenging as various stakeholders and the school district decide which support services to eliminate now that many one-time dollars are coming to a close and the COLA outlook is shaky.

However, with constant discussions and communication with various stakeholders including our community, Franklin-McKinley can position itself well to weather the fiscal cliff that is coming.

Contacting the District's Financial Management

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

	Governmental Activities
Assets	
Deposits and investments	$ 100,600,368
Receivables	7,683,136
Prepaid expense	830,077
Stores inventories	143,788
Other current assets	283,252
Leases receivable	5,105,333
Capital assets not depreciated	12,187,047
Capital assets, net of accumulated depreciation	169,319,405
Total assets	296,152,406
Deferred outflows of resources	
Deferred charge on refunding	4,498,153
Related to pensions	25,881,403
Total deferred outflows of resources	30,379,556
Liabilities	
Accounts payable	11,940,143
Interest payable	2,334,330
Due to other governments	2,912,392
Unearned revenue	4,958,875
Long-term liabilities	
Long-term liabilities other than pensions	
Due within one year	7,473,618
Due in more than one year	166,230,401
Aggregage net pension liabilities, due in more than one year	91,171,788
Total liabilities	287,021,547
Deferred inflows of resources	
Related to pensions	14,515,962
Related to leases	4,670,316
Total deferred inflows of resources	19,186,278
Net (Deficit) Position	
Net investment in capital assets	44,785,101
Restricted for	
Capital projects	10,187,429
Educational programs	20,675,242
Food Services	4,546,281
Self Insurance programs	1,606,099
Unrestricted (deficit)	(61,476,015)
Total net position	$ 20,324,137

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 79,644,972	$ 5,323	$ 22,203,625	$ (57,436,024)
Instruction-related activities				
Supervision of instruction	2,354,833	83	1,419,002	(935,748)
Instructional library, media, and technology	1,013,885	-	396,145	(617,740)
School site administration	9,711,879	487	1,218,910	(8,492,482)
Pupil services				
Home-to-school transportation	3,136,205	-	79,884	(3,056,321)
Food services	6,226,080	14	7,650,215	1,424,149
All other pupil services	5,845,155	1,313	2,520,074	(3,323,768)
Administration				
Data processing	2,760,764	114	437,622	(2,323,028)
All other administration	5,906,928	-	1,558,845	(4,348,083)
Plant services	11,350,383	45,756	6,068,340	(5,236,287)
Ancillary services	339,151	-	321,125	(18,026)
Enterprise services	1,253,332	-	-	(1,253,332)
Interest on long-term liabilities	5,456,648	-	-	(5,456,648)
Total governmental activities	$ 135,000,215	$ 53,090	$ 43,873,787	(91,073,338)
General Revenues and Subventions				
Property taxes, levied for general purposes				35,926,764
Property taxes, levied for debt service				10,334,831
Taxes levied for other specific purposes				2,915,231
Federal and State aid not restricted to specific purposes				51,006,796
Interest and investment earnings				1,803,656
Miscellaneous				18,521,905
Subtotal, general revenues and subventions				120,509,183
Change in Net Position				29,435,845
Net Position (Deficit) - Beginning, as restated				(9,111,708)
Net Position - Ending				$ 20,324,137

	Restated General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Deposits and investments	$ 60,971,348	$ 3,660,681	$ 15,920,163	$ 8,439,045	$ 10,221,171	$ 99,212,408
Receivables	5,606,537	1,698,060	142,631	154,150	72,758	7,674,136
Due from other funds	266,530	-	-	-	-	266,530
Prepaid expenditures	629,220	2,000	-	-	-	631,220
Stores inventories	-	143,788	-	-	-	143,788
Leases receivable	5,105,333	-	-	-	-	5,105,333
Total assets	$ 72,578,968	$ 5,504,529	$ 16,062,794	$ 8,593,195	$ 10,293,929	$ 113,033,415
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
Accounts payables	$ 5,386,875	$ 677,695	$ 209,650	$ -	$ 3,850	$ 6,278,070
Salary and benefits payables	5,648,050	14,023	-	-	-	5,662,073
Intergovernmental payables	2,912,392	-	-	-	-	2,912,392
Due to other funds	4,994	266,530	-	-	-	271,524
Unearned revenue	4,957,139	-	-	-	1,736	4,958,875
Total liabilities	18,909,450	958,248	209,650	-	5,586	20,082,934
Deferred Inflows of Resources						
Related to leases	4,670,316	-	-	-	-	4,670,316
Fund Balances						
Nonspendable	1,089,237	145,788	-	-	-	1,235,025
Restricted	20,431,698	4,400,493	15,853,144	8,593,195	10,288,343	59,566,873
Committed	5,750,000	-	-	-	-	5,750,000
Assigned	3,732,036	-	-	-	-	3,732,036
Unassigned	17,996,231	-	-	-	-	17,996,231
Total fund balances	48,999,202	4,546,281	15,853,144	8,593,195	10,288,343	88,280,165
Total liabilities, deferred inflows of resources, and fund balances	$ 72,578,968	$ 5,504,529	$ 16,062,794	$ 8,593,195	$ 10,293,929	$ 113,033,415

Total Fund Balance - Governmental Funds		$ 88,280,165
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	$ 309,004,975	
Accumulated depreciation is	(127,498,523)	
Net capital assets		181,506,452
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(2,334,330)
An internal service fund is used by management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities in the statement of net position.		1,606,099
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings (deferred charge on refunding)		4,498,153
Expenditures relating to prepaid insurance on bond issuances were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis. The balance to amortize is reported on the Statement of Net Position as prepaid expenses.		188,857
Aggregate net pension liability net of deferrals is not due and payable in the current period, and is not reported as a liability in the funds.		(79,806,347)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
General obligation bonds	(145,565,017)	
Unamortized debt premiums	(6,247,855)	
Leases	(11,365,000)	
Compensated absences (vacations)	(470,042)	
Early retirement incentives	(1,561,196)	
Post employment benefits	(1,184,941)	
In addition, capital appreciation general obligation bonds were issued. The accretion of interest to date on the general obligation bonds is	(7,220,861)	
Total long-term liabilities		(173,614,912)
Total net position (deficit) - governmental activities		$ 20,324,137

	Restated General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Local control funding formula	$ 84,772,714	$ -	$ -	$ -	$ -	$ 84,772,714
Federal sources	14,254,058	5,155,953	-	-	-	19,410,011
Other State sources	30,423,013	2,667,535	1,061,220	45,616	6,544,086	40,741,470
Interest Income	762,023	2,967	603,035	159,856	122,000	1,649,881
Other local sources	7,154,113	10,516	-	10,529,435	843,222	18,537,286
Total revenues	137,365,921	7,836,971	1,664,255	10,734,907	7,509,308	165,111,362
Expenditures						
Current						
Instruction	78,839,356	-	-	-	-	78,839,356
Instruction-related activities						
Supervision of instruction	2,289,599	-	-	-	-	2,289,599
Instructional library, media, and technology	980,557	-	-	-	-	980,557
School site administration	9,479,470	-	-	-	-	9,479,470
Pupil services						
Home-to-school transportation	2,966,544	-	-	-	-	2,966,544
Food services	113,851	5,743,425	-	-	-	5,857,276
All other pupil services	5,674,629	-	-	-	-	5,674,629
Administration						
Data processing	2,633,245	-	-	-	-	2,633,245
All other administration	5,087,780	268,500	-	-	-	5,356,280
Plant services	10,716,949	-	-	-	-	10,716,949
Ancillary services	-	-	-	-	311,048	311,048
Capital outlay	505,385	104	10,038,796	-	302,523	10,846,808
Debt service						
Principal	69,805	-	535,000	7,729,000	-	8,333,805
Interest and other	2,097	-	448,488	5,303,735	-	5,754,320
Total expenditures	119,359,267	6,012,029	11,022,284	13,032,735	613,571	150,039,886
Excess (Deficiency) of Revenues Over Expenditures	18,006,654	1,824,942	(9,358,029)	(2,297,828)	6,895,737	15,071,476
Other Financing Sources (Uses)						
Transfers in	-	-	5,782,953	-	1,061,220	6,844,173
Transfers out	-	-	(1,061,220)	-	(5,782,953)	(6,844,173)
Net Financing Sources (Uses)	-	-	4,721,733	-	(4,721,733)	-
Net Change in Fund Balances	18,006,654	1,824,942	(4,636,296)	(2,297,828)	2,174,004	15,071,476
Fund Balance - Beginning, as restated	30,992,548	2,721,339	20,489,440	10,891,023	8,114,339	73,208,689
Fund Balance - Ending	$ 48,999,202	$ 4,546,281	$ 15,853,144	$ 8,593,195	$ 10,288,343	$ 88,280,165

Total Net Change in Fund Balances - Governmental Funds		$ 15,071,476
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation in the Statement of Activities.		
This is the amount by which depreciation exceed capital outlays expenses in the period.		
Depreciation expenses	$ (11,413,646)	
Capital outlays	10,846,808	
Net expense adjustment		(566,838)
Payments for the early retirement obligations are recognized as expenditures in the governmetnal funds when pa governmental funds but it reduces the liability in the government-wide statement of net position and does not impact the statement of activities. During the year, amounts incurred was more than amounts paid.		(448,513)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.		71,230
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.		6,482,310

Governmental funds report the effect of premiums, prepaid insurance on refunding, and the deferred charge on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Prepaid insurance on refunding amortization	(13,863)
Premium amortization	430,007
Deferred charge on refunding amortization	(129,891)
Payment of principal on long-term-liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
General obligation bonds	7,729,000
Finance purchase	604,805
Payment of retiree benefits are an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	95,777
Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accretes or accrues, regardless of when it is due.	11,419
An internal service fund is used by management to charge the costs of the self insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	98,926
Change in net position (deficit) of governmental activities	$ 29,435,845

	Governmental Activities - Internal Service Fund
Assets	
Current assets	
Deposits and investments	$ 1,387,960
Receivables	9,000
Due from other funds	4,994
Prepaid expenses	10,000
Other current assets	283,252
Total assets	1,695,206
Liabilities	
Current liabilities	
Claim liabilities	89,107
Total liabilities	89,107
Net Position	
Restricted for self insurance	1,606,099
Total net position	$ 1,606,099

	Governmental Activities - Internal Service Fund
Operating Revenues	
In-District contribution	$ 1,335,601
Total operating revenues	1,335,601
Operating Expenses	
Insurance and other	1,253,332
Total operating expenses	1,253,332
Operating Income	82,269
Nonoperating Revenues	
Unrealized (loss) due to fair market value adjustment	(8,462)
Interest income	25,119
Total nonoperating revenues	16,657
Change in Net Position	98,926
Total Net Position - Beginning	1,507,173
Total Net Position - Ending	$ 1,606,099

	Governmental Activities - Internal Service Fund
Operating Activities	
Cash receipts from user charges	$ 1,328,098
Cash payments for insurance claims	(1,214,432)
Net Cash From Operating Activities	113,666
Investing Activities	
Interest on investments	27,983
Unrealized (loss) on investments	(8,462)
Net Cash used for Investing Activities	19,521
Net Change in Cash and Cash Equivalents	133,187
Cash and Cash Equivalents, Beginning	1,254,773
Cash and Cash Equivalents, Ending	$ 1,387,960
Reconciliation of Operating Income to Net Cash From Operating Activities	
Operating income	$ 82,269
Changes in assets and liabilities	
Receivables	(9,000)
Due from other fund	1,497
Other current asset	37,251
Accrued liabilities	1,649
Net Cash From Operating Activities	$ 113,666

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

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

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Franklin-McKinley School District, this includes general operations, food service, and student related activities of the District.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

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

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

Nonmajor Governmental Funds

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

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

Capital Project Funds The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds). A capital project fund, Building Fund, is reported under major governmental funds in the previous page.

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the 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 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets, Depreciation, and Amortization

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 $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

The District records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2023.

The District records the value of intangible right-to-use assets based on the underlying leased asset in accordance with GASB Statement No. 87, *Leases*. The right-to-use intangible asset is amortized each year for the term of the contract or useful life of the underlying asset.

The District records the value of right-to-use subscription IT assets based on the underlying subscription asset in accordance with GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The right-to-use subscription IT asset is amortized each year for the term of the contract or useful life of the underlying asset.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities’ columns of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Liabilities

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

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

Debt Issuance Costs, Premiums and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Subscription-Based Information Technology Arrangements

The District recognizes a subscription liability and an intangible right-to-use subscription IT asset (subscription IT asset) in the government-wide financial statements. The District measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription liability, plus certain initial direct costs. Subsequently, the subscription IT asset is amortized on a straight-line basis over the subscription term or useful life of the underlying asset.

Leases

As Lessee: At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term or useful life of the underlying asset.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

As Lessor: The District is a lessor for two noncancellable building leases. Accordingly, the District recognizes a lease receivable and a deferred inflow of resources.

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

Fund Balances - Governmental Funds

As of June 30, 2023, fund balances of the governmental funds are classified as follows:

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

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

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

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 5 percent of General Fund expenditures and other financing uses.

Net Position

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

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

Property Tax

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

Change in Accounting Principles

As of July 1, 2022, the District implemented the following GASB Statement:

GASB Statement No. 96 – In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 defines such arrangements as contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. The standard clarifies measurement and recognition of capitalizable costs, intangible assets, and subscription liabilities for such arrangements and also requires additional disclosures related to such arrangements. The provisions of this statement have been implemented as of July 1, 2022 which did not have a material impact on the financial statements.

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 99 – In April 2022, GASB Issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain requirements of this statement have been implemented as of June 30, 2022. The requirements related to leases, PPPs, and Subscription-Based Information Technology Arrangements (SBITA) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100 – In June 2022, GASB Issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 101 – In June 2022, GASB Issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of the financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2023, are classified in the accompanying financial statements as follows:

Governmental funds	$ 99,212,408
Proprietary funds	1,387,960
Total deposits and investments	$ 100,600,368

Deposits and investments as of June 30, 2023, consist of the following:

Cash on hand and in banks	$ 367,122
Cash in revolving	25,000
Investments	100,208,246
Total deposits and investments	$ 100,600,368

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The pool is not registered with Stock Exchange Commission.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool. The fair value of the investment with the County Treasurer at June 30, 2023 was $100 million and the weighted average maturity of the pool was 648 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated, nor they have been rated as of June 30, 2023.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2023, $400 thousand of the District's bank balances was exposed to custodial credit risk because they were uninsured but collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Fair Value Measurements

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

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

As of June 30, 2023, the District's investments in the Santa Clara County Treasury Investment Pool and State Investment Pools are uncategorized.

Note 3 - Receivables Other than Lease Receivables

Receivables at June 30, 2023, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total	Proprietary Fund
Federal Government							
Categorical aid	$ 3,390,242	$ 1,468,562	$ -	$ 116,484	$ -	$ 4,975,288	$ -
State Government							
LCFF apportionment	-	-	-	-	-	-	-
Categorical aid	813,722	-	-	-	-	813,722	-
Lottery	341,893	-	-	-	-	341,893	-
Other State	-	202,683	-	-	-	202,683	-
Local Government					-		-
Interest	506,888	26,604	142,631	-	72,758	748,881	-
Other local sources	553,792	211	-	37,666	-	591,669	9,000
Total	$ 5,606,537	$ 1,698,060	$ 142,631	$ 154,150	$ 72,758	$ 7,674,136	$ 9,000

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	Balance July 01, 2022	Additions	Deductions	Balance June 30, 2023
Governmental Activities				
Capital assets not being depreciated				
Land	$ 1,565,500	$ -	$ -	$ 1,565,500
Construction in progress	45,615,851	10,763,046	(45,757,350)	10,621,547
Total capital assets not being depreciated	47,181,351	10,763,046	(45,757,350)	12,187,047
Capital assets being depreciated				
Buildings and improvements	240,789,052	45,757,350	-	286,546,402
Furniture and equipment	10,187,764	83,762	-	10,271,526
Total capital assets being depreciated	250,976,816	45,841,112	-	296,817,928
Total capital assets	298,158,167	56,604,158	(45,757,350)	309,004,975
Accumulated depreciation				
Buildings and improvements	(110,357,690)	(10,782,064)	-	(121,139,754)
Furniture and equipment	(5,727,187)	(631,582)	-	(6,358,769)
Total accumulated depreciation	(116,084,877)	(11,413,646)	-	(127,498,523)
Governmental activities Capital assets, net	$ 182,073,290	$ 45,190,512	$ (45,757,350)	$ 181,506,452

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

Governmental Activities	
Instruction	$ 7,168,486
Supervision of instruction	206,931
Instructional library, media, and technology	88,739
School site administration	856,472
Home-to-school transportation	268,519
Food services	513,752
All other pupil services	514,946
Ancilliary services	28,103
Data processing	245,217
All other administration	489,660
Plant services	1,032,821
Total depreciation expenses governmental activities	$ 11,413,646

Note 5 - Lease Receivables

The District is leasing buildings and land to third parties under noncancellable lease agreements. The leases agreements expire through fiscal year 2045 and the District is currently receiving annual payments of $558 thousand. The District recognized $621 thousand in lease revenue and $251 thousand in interest revenue during the current fiscal year related to the leases. As of June 30, 2023, the District’s receivable for lease payments was $5.1 million and was calculated using a discount rate of 4.75 percent. Also, the District has a deferred inflow of resources associated with the leases that will be recognized as revenue over the lease term. As of June 30, 2023, the balance of the deferred inflow of resources was $4.7 million.

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2023, between major and Nonmajor governmental funds are as follows:

	Due From		
Due To	General Fund	Proprietary Funds	Total
General Fund	$ -	$ 4,994	$ 4,994
Cafeteria Fund	266,530	-	266,530
Total	$ 266,530	$ 4,994	$ 271,524

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

Note 7 - Deferred Outflows of Resources on Refunding

Deferred outflows of resources are a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets includes the effect of deferring the recognition of loss from advance refunding. The $4,498,153 balance of the deferred outflow of resources on refunding at June 30, 2023 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. During the year, the District recognized expenses $129,891 related to the deferred charge on refunding.

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2023, consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Federal financial assistance	$ 427,941	$ -	$ 427,941
State categorical aid	683,154	-	683,154
Other local	3,846,044	1,736	3,847,780
Total	$ 4,957,139	$ 1,736	$ 4,958,875

Note 9 - Long-Term Liabilities Other than Pensions

Summary

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

	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023	Due in One Year
Long-Term Liabilities					
General obligation bonds	$ 160,514,878	$ -	$ (7,729,000)	$ 152,785,878	$ 5,311,000
Unamortized debt premiums	6,677,862	-	(430,007)	6,247,855	402,065
Financed purchases	11,969,805	-	(604,805)	11,365,000	605,000
Termination benefits liability	1,112,683	1,129,495	(680,982)	1,561,196	680,982
Compensated absences	541,272	319,549	(390,779)	470,042	282,025
Retiree health care benefit	1,280,718	-	(95,777)	1,184,941	103,439
Claim liabilities	87,458	1,254,981	(1,253,332)	89,107	89,107
Total	$ 182,184,676	$ 2,704,025	$ (11,184,682)	$ 173,704,019	$ 7,473,618

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2022	Redeemed	Bonds Outstanding June 30, 2023
2006	2028	3.25-5.25%	$ 6,950,000	$ 6,140,000	$ (305,000)	$ 5,835,000
2011	2023	5.25-11.98	6,875,000	1,125,000	(1,125,000)	-
2011	2027	5.25-11.98	4,500,000	4,500,000	-	4,500,000
2012	2036	3.00-4.00%	15,000,000	450,000	(450,000)	-
2015	2025	3.00-5.00%	4,690,000	2,700,000	(800,000)	1,900,000
2015	2038	3.00-5.00%	4,835,000	2,115,000	(125,000)	1,990,000
2016	2038	3.00-5.00%	13,425,000	12,650,000	(125,000)	12,525,000
2017	2045	3.00-4.00%	25,000,000	19,565,000	-	19,565,000
2017	2036	2.00-4.00%	5,730,000	5,285,000	(305,000)	4,980,000
2018	2044	3.00-4.00%	30,000,000	28,850,000	-	28,850,000
2019	2041	3.00-4.00%	12,400,000	11,450,000	(890,000)	10,560,000
2020	2041	3.23-3.35%	16,540,000	16,540,000	-	16,540,000
2021	2040	4.00%	27,000,000	22,200,000	(2,220,000)	19,980,000
2022	2038	2.40%	6,703,000	6,703,000	(95,000)	6,608,000
2022	2039	3.50%	2,380,000	2,380,000	(39,000)	2,341,000
	Total current interest bonds			142,653,000	(6,479,000)	136,174,000
2002	2023	2.70-6.00%	$ 8,999,326	1,250,000	(1,250,000)	-
2011	2036	5.25-11.98	15,163,985	10,404,434	-	10,404,434
2020	2045	3.85%	5,602,032	6,207,444	-	6,207,444
	Total capital appreciation bonds			17,861,878	(1,250,000)	16,611,878
	Total bonded liabilities			$ 160,514,878	$ (7,729,000)	$ 152,785,878

Debt Service Requirements to Maturity

The capital appreciation bonds mature as follows:

Bonds Maturing Fiscal Year	Initial Bond Value	Accreted Interest	Accreted Obligation	Unaccreted Interest	Maturity Value
2024	$ -	$ -	$ -	$ -	$ -
2025	-	-	-	-	-
2026	-	-	-	-	-
2027	152,388	407,383	559,771	340,229	900,000
2028	350,424	936,811	1,287,235	1,037,765	2,325,000
2029-2033	2,200,403	3,794,152	5,994,555	6,805,445	12,800,000
2034-2038	1,085,770	1,477,103	2,562,873	4,437,127	7,000,000
2039-2043	2,004,058	216,106	2,220,164	2,556,284	4,776,448
2044-2046	3,597,974	389,306	3,987,280	5,062,488	9,049,768
Total	$ 9,391,017	$ 7,220,861	$ 16,611,878	$ 20,239,338	$ 36,851,216

The current interest bonds mature as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2024	$ 5,311,000	$ 5,241,575	$ 10,552,575
2025	5,054,000	5,013,749	10,067,749
2026	3,134,000	4,759,440	7,893,440
2027	8,071,000	4,459,934	12,530,934
2028	3,566,000	4,171,804	7,737,804
2029-2033	22,991,000	18,606,089	41,597,089
2034-2038	29,747,000	14,312,963	44,059,963
2039-2043	40,257,349	11,132,706	51,390,055
2044-2048	14,282,651	(1,056,194)	13,226,457
2047-2050	3,760,000	228,400	3,988,400
Total	$ 136,174,000	$ 66,870,466	$ 203,044,466

Finance Purchases

The District has entered into agreements for solar energy generation equipment that transfer ownership of the underlying asset to the District by the end of the contact and do not contain termination options.

The finance purchases have minimum lease payments as follows:

Year Ending June 30,	Principal Payment	Interest Payment
2024	$ 605,000	$ 425,049
2025	675,000	401,456
2026	750,000	375,210
2027	830,000	346,027
2028	915,000	313,718
2029-2033	6,045,000	962757
2034-2035	1,545,000	44059
Total	11,365,000	$ 2,868,276

Non-Healthcare Related Termination Benefits Liability

The District has entered into voluntary termination agreements with certain employees. The incentive payments required through the end of the agreements are as follows:

Year Ending June 30,	Incentive Payment
2024	$ 680,982
2025	428,416
2026	225,899
2027	225,899
Total	$ 1,561,196

Healthcare Related Termination Benefits Liability

The district provides retiree health care benefits, in accordance with District employment contracts, to three employees. The District contributes 100 percent of the amount of premiums incurred by the retirees. Expenditures for the benefits are recognized on a pay-as-you-go basis, as retiree's premiums are paid. During the year, expenditures of $88,683 were recognized for retiree's health care benefits. The approximate accumulated future liability for the District at June 30, 2023, amounts to $1,184,941. This amount was calculated based upon the three retirees receiving benefits multiplied by the District payment in effect at June 30, 2023, multiplied by the number of years of payments remaining, with health care cost trend rate of 7%.

These health care benefits mature through 2035 as follows:

Year Ended June 30,	Payment
2024	$ 103,439
2025	111,714
2026	80,341
2027	86,768
2028	93,709
2029-2033	577,643
2034-2035	131,327
Total	$ 1,184,941

Note 10 - Fund Balances

Fund balances are composed of the following elements:

	Restated General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total
Nonspendable						
Revolving cash	$ 25,000	$ -	$ -	$ -	$ -	$ 25,000
Stores inventories	-	143,788	-	-	-	143,788
Prepaid expenditures	629,220	2,000	-	-	-	631,220
Leases	435,017					435,017
Total nonspendable	1,089,237	145,788	-	-	-	1,235,025
Restricted						
Educational programs	20,431,698	-	-	-	243,544	20,675,242
Food service	-	4,400,493	-	-	-	4,400,493
Capital projects	-	-	15,853,144	-	10,044,799	25,897,943
Debt services	-	-	-	8,593,195	-	8,593,195
Total restricted	20,431,698	4,400,493	15,853,144	8,593,195	10,288,343	59,566,873
Committed						
Mitigation measures	3,800,000	-	-	-	-	3,800,000
Technology refresh	1,000,000	-	-	-	-	1,000,000
Program carryover	950,000	-	-	-	-	950,000
Total committed	5,750,000	-	-	-	-	5,750,000
Assigned						
Early retirement progran	2,275,730	-	-	-	-	2,275,730
Program carryover	1,456,306	-	-	-	-	1,456,306
Total assigned	3,732,036	-	-	-	-	3,732,036
Unassigned						
Reserve for economic uncertainties	3,609,459	-	-	-	-	3,609,459
Remaining unassigned	14,386,772	-	-	-	-	14,386,772
Total unassigned	17,996,231	-	-	-	-	17,996,231
Total	$ 48,999,202	$ 4,546,281	$ 15,853,144	$ 8,593,195	$ 10,288,343	$ 88,280,165

Note 11 - Risk Management

Property and Liability

The District is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2023, the District contracted with Alliance of Schools for Cooperative Insurance Programs for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

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

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

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

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2021 to June 30, 2023:

	Dental and Vision
Liability Balance, July 1, 2021	$ 79,454
Claims and changes in estimates	1,217,548
Claims payments	(1,209,544)
Liability Balance, June 30, 2022	87,458
Claims and changes in estimates	1,254,981
Claims payments	(1,253,332)
Liability Balance, June 30, 2023	$ 89,107

Note 12 - Employee Retirement Systems

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

For the fiscal year ended June 30, 2023, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 50,753,421	$ 11,913,444	$ 12,869,821	$ 2,114,841
CalPERS	40,418,367	13,967,959	1,646,141	5,002,835
Total	$ 91,171,788	$ 25,881,403	$ 14,515,962	$ 7,117,676

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, 2021, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2023, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	10.828%	10.828%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2023, are presented above and the District's total contributions were $8,882,947.

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

At June 30, 2023, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	$ 50,753,421
State's proportionate share of the net pension liability	25,417,115
Total	$ 76,170,536

The net pension liability was measured as of June 30, 2022. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2022 and June 30, 2021, respectively was 0.0730 percent and 0.0759 percent, resulting in a net decrease in the proportionate share of 0.0029 percent.

For the year ended June 30, 2023, the District recognized pension expense of $2,114,841. In addition, the District recognized pension expense and revenue of $594,825 for support provided by the State. At June 30, 2023, 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	$ 8,882,947	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	471,864	6,582,433
Differences between projected and actual earnings on pension plan investments	-	2,481,941
Differences between expected and actual experience in the measurement of the total pension liability	41,633	3,805,447
Changes of assumptions	2,517,000	-
Total	$ 11,913,444	$ 12,869,821

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	$ (1,823,169)
2025	(1,975,096)
2026	(2,966,994)
2027	4,283,318
Total	$ (2,481,941)

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	$ (377,834)
2025	(1,774,529)
2026	(1,999,869)
2027	(1,619,045)
2028	(1,058,409)
Thereafter	(527,697)
Total	$ (7,357,383)

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 2015 through June 30, 2018
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

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

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

Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2022, are summarized in the following table:

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 86,198,132
Current discount rate (7.10%)	50,753,421
1% increase (8.10%)	21,323,653

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2023, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	8.00%
Required employer contribution rate	25.37%	25.37%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2023, are presented above and the total District contributions were $4,717,039.

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

As of June 30, 2023, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $40,418,367. The net pension liability was measured as of June 30, 2022. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2022 and June 30, 2021, respectively was 0.1175 percent and 0. 1127 percent, resulting in a net increase in the proportionate share of 0.0048 percent.

For the year ended June 30, 2023, the District recognized pension expense of $5,002,835. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,717,039	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	1,306,023	640,480
Differences between projected and actual earnings on pension plan investments	4,772,309	-
Differences between expected and actual experience in the measurement of the total pension liability	182,667	1,005,661
Changes of assumptions	2,989,921	-
Total	$ 13,967,959	$ 1,646,141

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

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	$ 795,869
2025	705,880
2026	360,573
2027	2,909,987
Total	$ 4,772,309

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	$ 757,048
2025	1,124,335
2026	950,155
2027	932
Total	$ 2,832,470

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2021, and rolling forward the total pension liability to June 30, 2022. The financial reporting actuarial valuation as of June 30, 2021, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2021
Measurement date	June 30, 2022
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

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

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

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity - cap-weighted	30%	4.45%
Global Equity non-cap-weighted	12%	3.84%
Private Equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed Securities	5%	0.50%
Investment Grade Corporates	10%	1.56%
High Yield	5%	2.27%
Emerging Market Debt	5%	2.48%
Private Debt	5%	3.57%
Real Assets	15%	3.21%
Leverage	-5%	-0.59%

Discount Rate

The discount rate used to measure the total pension liability was 6.90 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 (5.90%)	$ 58,386,377
Current discount rate (6.90%)	40,418,367
1% increase (7.90%)	25,568,466

Social Security

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

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $4,077,434 (10.828 percent of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures.

Accordingly, these amounts have been recorded in these financial statements.

Note 13 - 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, 2023.

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, 2023.

Construction Commitments

As of June 30, 2023, the District had commitments of $3,771,014 with respect to the unfinished capital projects.

Note 14 - Participation in Joint Powers Authorities and Other Related Party Transactions

The District is a member of the East Valley Transportation (EVT) joint powers authority (JPA). The District pays an annual premium to the applicable entity to provide transportation services for special education students. The relationships between the District, and the JPA are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements. The District has appointed one board member to the Governing Board of each of these two authorities. During the year ended June 30, 2023, the District made payments of $929,683 to EVT. Audited financial statements are generally available from the respective entities.

Note 15 - Correction of Error

During the 2023 fiscal year, the District identified misstatements within the fiscal year 2022 financial statements that effect the balance of the fiscal year 2023 financial statements related to certain assets and liabilities. The effects of such restatement on the change in net position of the fiscal year 2022 is a decrease of approximately $1.9 million.

The following is a summary of the effects of such restatement on the balance of net position as of the July 1, 2022 beginning balance date:

Governmental Activities	
Beginning net position (deficit), governmental activities	
Previously reported at June 30, 2022	$ (7,258,230)
Adjustments to	
Early retirement liabilities	(607,551)
Accounts payable	(1,437,151)
Accounts receivables	191,224
Net change in net position	(1,853,478)
Net position (deficit) - beginning, as restated	$ (9,111,708)

The effects of such restatement on the changes in fund balance of the fiscal year 2022 and the effects of such restatement on the fund balance as of July 1, 2022 beginning balance date is shown below:

	General Fund	Cafeteria Fund	Building Fund
Beginning Fund Balance Previously Reported at June 30, 2022	$ 31,948,585	$ 2,530,852	$ 20,969,817
Adjustments to			
Record prior year accounts payable	(956,037)	(737)	(480,377)
Record prior year accounts receivable	-	191,224	-
Net change in fund balances	(956,037)	190,487	(480,377)
Fund balance - beginning, as restated	$ 30,992,548	$ 2,721,339	$ 20,489,440

Note 16 - Restatement and Reissuance

Subsequent to the issuance of the District's 2023 financial statements, management became aware that the financial statements were misstated for errors related to the determination of which lease agreements are subject to GASB 87, resulting in an understatement of lease receivables and deferred inflows of resources within the general fund and statement of net position. The effects of the correction of this error the general fund and statement of net position is shown below:

	Previously Reported	Adjustments	Restated Balances
Balance Sheet - General Fund			
Leases receivable	-	5,105,333	5,105,333
Deferred inflows of resources related to leases	-	4,670,316	4,670,316
Nonspendable fund balance	654,220	435,017	1,089,237
Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund			
Other local sources	7,093,257	60,856	7,154,113
Interest income	509,905	252,118	762,023
Fund Balance, Beginning, as restated	30,870,505	122,043	30,992,548

	Previously Reported	Adjustments	Restated Balances
Statement of net position			
Leases receivable	-	5,105,333	5,105,333
Deferred inflows of resources related to leases	-	4,670,316	4,670,316
Unrestricted (deficit)	(61,911,032)	435,017	(61,476,015)
Statement of Activities			
Miscellaneous	18,208,931	312,974	18,521,905
Net Position (Deficit) - Beginning, as restated	(9,233,751)	122,043	(9,111,708)

Required Supplementary Information
June 30, 2023

Franklin-McKinley School District

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Local control funding formula	$78,109,982	$83,762,125	$ 84,772,714	$ 1,010,589
Federal sources	10,432,754	16,843,411	14,254,058	(2,589,353)
Other State sources	20,219,110	34,399,698	30,423,013	(3,976,685)
Other local sources	7,963,874	11,334,827	7,916,136	(3,418,691)
Total revenues	116,725,720	146,340,061	137,365,921	(8,974,140)
Expenditures				
Current				
Certificated salaries	52,437,612	49,970,510	48,315,770	1,654,740
Classified salaries	18,653,868	18,152,771	17,201,761	951,010
Employee benefits	33,246,883	31,596,679	29,260,978	2,335,701
Books and supplies	2,666,950	9,377,806	3,280,102	6,097,704
Services and operating expenditures	11,208,511	25,789,479	21,142,793	4,646,686
Other outgo	969,607	(13,755)	-	(13,755)
Capital outlay	71,902	96,916	85,961	10,955
Debt service				
Debt service - principal	69,805	69,805	69,805	-
Debt service - interest and other	2,097	2,097	2,097	-
Total expenditures	119,327,235	135,042,308	119,359,267	15,683,041
Net Change in Fund Balances	(2,601,515)	11,297,753	18,006,654	6,708,901
Fund Balance - Beginning	30,992,548	30,992,548	30,992,548	-
Fund Balance - Ending	$ 28,391,033	$ 42,290,301	$ 48,999,202	$ 6,708,901

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Federal sources	$ 4,889,243	$ 4,887,885	$ 5,155,953	$ 268,068
Other State sources	315,456	2,560,170	2,670,502	110,332
Other local sources	1,000	1,000	10,516	9,516
Total revenues	5,205,699	7,449,055	7,836,971	387,916
Expenditures				
Current				
Classified salaries	1,770,945	1,767,055	1,720,171	46,884
Employee benefits	1,005,732	988,500	912,141	76,359
Books and supplies	1,895,899	1,895,899	206,881	1,689,018
Services and operating expenditures	349,495	737,099	2,730,995	(1,993,896)
Other outgo	154,821	154,821	441,841	(287,020)
Total expenditures	5,176,892	5,543,374	6,012,029	(468,655)
Net Change in Fund Balances	28,807	1,905,681	1,824,942	(80,739)
Fund Balance - Beginning	2,721,339	2,721,339	2,721,339	-
Fund Balance - Ending	$ 2,750,146	$ 4,627,020	$ 4,546,281	$ (80,739)

	2023	2022	2021	2020	2019	2018	2017	2016
CalSTRS								
Proportion of the net pension liability	0.0730%	0.0759%	0.0763%	0.0804%	0.0819%	0.0798%	0.0865%	0.0903%
Proportionate share of the net pension liability	$ 50,753,421	$ 34,552,617	$73,896,776	$ 72,657,286	$ 75,271,657	$ 73,809,593	$ 69,978,477	$ 60,773,479
State's proportionate share of the net pension liability	25,417,115	17,385,537	38,093,797	39,639,400	43,096,544	43,665,132	39,837,499	32,142,471
Total	$ 76,170,536	$ 51,938,154	$ 111,990,573	$ 112,296,686	$ 118,368,201	$ 117,474,725	$ 109,815,976	$ 92,915,950
Covered payroll	$ 46,814,456	$ 43,233,912	$ 41,183,152	$ 42,480,049	$ 44,466,854	$ 43,205,461	$ 43,450,466	$ 41,816,982
Proportionate share of the net pension liability as a percentage of its covered payroll	108%	80%	179%	171%	169%	171%	161%	145%
Plan fiduciary net position as a percentage of the total pension liability	81%	87%	72%	73%	71%	69%	70%	74%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
CalPERS								
Proportion of the net pension liability	0.1175%	0.1127%	0.1106%	0.1159%	0.1175%	0.1167%	0.1136%	0.1133%
Proportionate share of the net pension liability	$ 40,418,367	$ 22,916,795	$ 33,928,263	$ 33,787,756	$ 31,326,020	$ 27,867,689	$ 22,244,660	$ 16,698,379
Covered payroll	$ 18,023,191	$ 16,233,820	$ 15,929,147	$ 16,060,453	$ 15,501,706	$ 14,866,741	$ 13,631,848	$ 12,189,415
Proportionate share of the net pension liability as a percentage of its covered payroll	224%	141%	213%	210%	202%	187%	163%	137%
Plan fiduciary net position as a percentage of the total pension liability	70%	81%	70%	70%	71%	72%	74%	79%
Measurement Date	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015

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

	2023	2022	2021	2020	2019	2018	2017	2016
CalSTRS								
Contractually required contribution	$ 8,882,947	$ 7,921,006	$ 6,822,464	$ 7,042,319	$ 6,915,752	$ 6,416,567	$ 5,435,247	$ 4,662,235
Less contributions in relation to the contractually required contribution	8,882,947	7,921,006	6,822,464	7,042,319	6,915,752	6,416,567	5,435,247	4,662,235
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 46,507,576	$ 46,814,456	$ 43,233,912	$ 41,183,152	$ 47,926,209	$ 44,466,854	$ 43,205,461	$ 43,450,466
Contributions as a percentage of covered payroll	19.10%	16.92%	16.15%	17.10%	14.43%	14.43%	12.58%	10.73%
CalPERS								
Contractually required contribution	$ 4,717,039	$ 4,129,113	$ 3,347,118	$ 3,141,387	$ 2,900,839	$ 2,407,570	$ 2,064,693	$ 1,614,965
Less contributions in relation to the contractually required contribution	4,717,039	4,129,113	3,347,118	3,141,387	2,900,839	2,407,570	2,064,693	1,614,965
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 18,592,980	$ 18,023,191	$ 16,233,820	$ 15,929,147	$ 16,060,453	$ 15,501,706	$ 14,866,741	$ 13,631,848
Contributions as a percentage of covered payroll	25.370%	22.910%	20.700%	19.721%	18.062%	15.531%	13.888%	11.847%

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

Note 1 - Purpose of Schedules

Budgetary Comparison Schedules

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

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

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

	Expenditures and Other Uses		
Funds	Budget	Actual	Excess
Cafeteria Fund	$ 5,543,374	$ 6,012,029	$ 468,655

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

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

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

Schedule of the District's Contributions for Pension

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

Supplementary Information
June 30, 2023

Franklin-McKinley School District

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
COVID-19 Elementary and Secondary School Emergency Relief (ESSER)			
COVID-19 ESSER II	84.425D	15547	$ 680,550
COVID-19 American Rescue Plan - ESSER III	84.425D	15559	5,549,112
COVID-19 American Rescue Plan - ESSER III, Learning Loss	84.425D	10155	2,166,692
COVID-19 Expanded Learning Opportunities (ELO) Grant			
COVID-19 ESSER II State Reserve	84.425D	15618	357,271
COVID-19 Governor's Emergency Eductation Relief Fund			
COVID-19 GEER II	84.425C	15619	172,455
COVID-19 American Rescue Plan			
- Homeless Children and Youth II (ARP HYC II)	84.425D	15566	12,595
Subtotal			8,938,675
Special Education Cluster			
Special Education Grants to States	84.027	13379	1,230,545
Special Education Grants to States	84.027	10170	260,554
Special Education Grants to States	84.027A	15197	955
Special Education Preschool Grant	84.173	13430	107,302
Special Education Preschool Grant	84.173	15639	46,143
Special Education Alternate Dispute Resolution	84.027A	13007	4,975
Total Special Education Cluster			1,650,474
Every Student Succeeds Act (ESSA)			
Title I Grants to Local Educational Agencies	84.010	14329	2,690,074
Subtotal			2,690,074
Supporting Effective Instruction State Grants	84.367	14341	276,539
English Language Acquisition State Grants	84.365	14346	411,482
Student Support and Academic Enrichment Program	84.424	15396	286,816
Total U.S. Department Education			14,254,060
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13525	2,698,244
Especially Needy Breakfast	10.553	13526	1,121,001
Supply Chain Assistance (SCA) Funds	10.555	15655	208,088
Total Child Nutrition Cluster			4,027,333
Child and Adult Care Food Program	10.558	13393	1,128,618
Total U.S. Department of Agriculture			5,155,951
Total			$ 19,410,011

Organization

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

Governing Board

Member	Office	Term Expires
Rudy Rodriguez	President	2026
George Sanchez	Vice President	2024
Marc Cooper	Clerk	2026
Steven Sanchez	Member	2026
Milan Balinton	Member	2024

Administration

Name	Title
Juan Cruz	District Superintendent
Jason Vann	Assistant Superintendent, Business Services
Amy Black	Assistant Superintendent, Educational Services
Annette Grasty	Assistant Superintendent, Human Resources
Esabel Corrie	Director, Fiscal Services

	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,312.52	2,341.22
Fourth through sixth	1,905.93	1,918.62
Seventh and eighth	1,249.44	1,254.07
Total Regular ADA	5,467.89	5,513.91
Extended Year Special Education		
Transitional kindergarten through third	3.01	3.01
Fourth through sixth	1.27	1.27
Seventh and eighth	0.75	0.75
Total Extended Year Special Education	5.03	5.03
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	7.07	7.32
Seventh and eighth	2.90	2.93
Total Special Education, Nonpublic, Nonsectarian Schools	9.97	10.25
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.44	0.46
Seventh and eighth	0.30	0.30
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.74	0.76
Total ADA	5,483.63	5,529.95

Grade Level	1986-1987 Minutes Requirement	2023-2023 Actual Minutes	Number of Minutes Credited Form J-13A*	Total Minutes Offered	Number of Actual Days: Traditional Calendar	Number of Actual Days: Days Credited Form J-13A*	Number of Actual Days: Days Offered	Status
Kindergarten	36,000	43,860	-	43,860	179	1	180	Complied
Grades 1 - 3	50,400							
Grade 1		51,100	-	51,100	179	1	180	Complied
Grade 2		51,100	-	51,100	179	1	180	Complied
Grade 3		51,100	-	51,100	179	1	180	Complied
Grades 4 - 8	54,000							
Grade 4		54,000	-	54,000	179	1	180	Complied
Grade 5		54,000	-	54,000	179	1	180	Complied
Grade 6		54,000	-	54,000	180	-	180	Complied
Grade 7		54,250	-	54,250	180	-	180	Complied
Grade 8		54,250	-	54,250	180	-	180	Complied

The District received approval (J-13A) on December 6, 2023 for one emergency day on March 29, 2023 for Santee Elementary School.

Summarized below are the fund balance reconciliations between the unaudited actual financial report and the audited financial statements:

	Cafeteria Fund	Bond Interest and Redemption Fund
Fund Balance		
Balance, June 30, 2023, unaudited actuals	$ 4,720,359	8,556,111
Audit adjustments		
Changes in the fair value of investments	-	37,084
Changes to inventory	(174,078)	
Balance, June 30, 2023, audited financial statements	$ 4,546,281	$ 8,593,195

	(Budget) 2024 [1]	2023	Restated 2022	2021
General Fund				
Revenues	$ 122,564,246	$ 137,365,921	$ 113,033,935	$ 102,191,390
Other sources	-	-	84,548	-
Total revenues and other sources	122,564,246	137,365,921	113,118,483	102,191,390
Expenditures	133,756,434	119,359,267	109,215,081	99,623,511
Other uses and transfers out	-	-	266,703	667,635
Total expenditures and other uses	133,756,434	119,359,267	109,481,784	100,291,146
Increase/(Decrease) in Fund Balance	(11,192,188)	18,006,654	3,636,699	1,900,244
Ending Fund Balance	$ 37,807,014	$ 48,999,202	$ 30,992,548	$ 21,622,870
Available Reserves [2]	$ 9,798,853	$ 17,996,231	$ 17,651,082	$ 18,643,474
Available Reserves as a Percentage of Total Outgo	7.33%	15.08%	16.12%	18.59%
Long-Term Liabilities	$ 257,402,189	$ 264,875,807	$ 297,055,426	$ 276,858,522
K-12 Average Daily Attendance at P-2	5,358	5,484	6,573	6,573

The General Fund balance has increased by $27.4 million over the past two years. The fiscal year 2023-2024 budget projects a decrease of $11.2 million (23 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past three years but anticipates incurring an operating deficit during the 2023-2024 fiscal year. Total long-term liabilities have decreased by $11.9 million over the past two years.

Average daily attendance (ADA) has decreased by 1,089 over the past two years. Increase of 126 ADA is anticipated during fiscal year 2023-2024.

[1] Financial information for 2024, 2022, and 2021 are included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

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

	Student Activity Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Nonmajor Governmental Funds
Assets					
Deposits and investments	$ 243,543	$ 8,352,703	$ 1	$ 1,624,924	$ 10,221,171
Receivables	1	66,477	-	6,280	72,758
Total assets	$ 243,544	$ 8,419,180	$ 1	$ 1,631,204	$ 10,293,929
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ -	$ 703	$ -	$ 3,147	$ 3,850
Unearned revenue	-	1,736	-	-	1,736
Total liabilities	-	2,439	-	3,147	5,586
Fund Balances					
Restricted	243,544	8,416,741	1	1,628,057	10,288,343
Total fund balances	243,544	8,416,741	1	1,628,057	10,288,343
Total liabilities, and fund balances	$ 243,544	$ 8,419,180	$ 1	$ 1,631,204	$ 10,293,929

	Student Activity Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Nonmajor Governmental Funds
Revenues					
Other State sources	$ -	$ -	$ 5,780,093	$ 763,993	$ 6,544,086
Interest income	185	151,296	2,861	(32,342)	122,000
Other local sources	320,940	522,282	-	-	843,222
Total revenues	321,125	673,578	5,782,954	731,651	7,509,308
Expenditures					
Current					
Ancillary services	311,048	-	-	-	311,048
Capital outlay	-	703	-	301,820	302,523
Total expenditures	311,048	703	-	301,820	613,571
Excess (Deficiency) of Revenues Over Expenditures	10,077	672,875	5,782,954	429,831	6,895,737
Other Financing Sources (Uses)					
Transfers in	-	-	-	1,061,220	1,061,220
Transfers out	-	-	(5,782,953)	-	(5,782,953)
Net Financing Sources (Uses)	-	-	(5,782,953)	1,061,220	(4,721,733)
Net Change in Fund Balances	10,077	672,875	1	1,491,051	2,174,004
Fund Balance - Beginning	233,467	7,743,866	-	137,006	8,114,339
Fund Balance - Ending	$ 243,544	$ 8,416,741	$ 1	$ 1,628,057	$ 10,288,343

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Franklin-McKinley School District (the District) under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets (or net position or fund balance) of Franklin-McKinley School District.

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

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

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

Independent Auditor's Reports
June 30, 2023

Franklin-McKinley School District

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin-McKinley School District (District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2023 and February 7, 2024.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Eide Bailly LLP

Menlo Park, California
December 15, 2023, except for item 2023-001 in the schedule of findings and questioned costs which is as of February 7, 2024

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Franklin-McKinley School District's (District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Eide Bailly LLP

Menlo Park, California
December 15, 2023

Independent Auditor's Report on State Compliance

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

Report on Compliance

Opinion on State Compliance

We have audited Franklin-McKinley School District's (District) compliance with the requirements specified in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the District's state program requirements identified below for the year ended June 30, 2023.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
Home to School Transportation Reimbursement	Yes
Independent Study Certification for ADA Loss Mitigation	Yes
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	No, see below
Transitional Kindergarten	Yes
Charter Schools	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes - Classroom Based	No, see below
Charter School Facility Grant Program	No, see below

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

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

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

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

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

District of Choice
The District did not elect to operate as a school district of choice; therefore, we did not perform procedures related to District of Choice.

California Clean Energy Jobs Act
We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

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

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

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

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

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
December 15, 2023

Financial Statements

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

Federal Awards

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

Identification of major programs:

Name of Federal Program or Cluster	Federal Financial Assistance Listing
COVID-19, Education Stabilization Fund	84.425C, 84.425D
Child Nutrition Cluster	10.555

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	No

State compliance

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

The following findings represent instances of noncompliance and questioned costs relating to State program laws and regulations. The finding has been coded as follows: Code 30000

2023-001 – Audit adjustments, material weakness in internal control over financial reporting

Criteria
Management of the District is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition
Audit adjustments were necessary for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America. Furthermore, subsequent to the issuance of the District's 2023 financial statements, management became aware that the financial statements were misstated for errors related to the interruption of lease agreements resulting in an understatement of lease receivables and deferred inflows of resources within the general fund.

Context/Effect
The following is a summary of the effects of restatements as of the July 1, 2022 beginning balance date:

Governmental Activities	
Beginning net position (deficit), governmental activities	
Previously reported at June 30, 2022	$ (7,258,230)
Adjustments to	
Early retirement liabilities	(607,551)
Accounts payable	(1,437,151)
Accounts receivables	191,224
Net change in net position	(1,853,478)
Net position (deficit) - beginning, as restated	$ (9,111,708)

	General Fund	Cafeteria Fund	Building Fund
Beginning Fund Balance Previously Reported at June 30, 2022	$ 31,948,585	$ 2,530,852	$ 20,969,817
Adjustments to			
Record prior year accounts payable	(956,037)	(737)	(480,377)
Record prior year accounts receivable	-	191,224	-
Net change in fund balances	(956,037)	190,487	(480,377)
Fund balance - beginning, as restated	$ 30,992,548	$ 2,721,339	$ 20,489,440

The following is a summary of the effects of current year adjustments on the June 30, 2023 ending balances:

	Cafeteria Fund	Bond Interest and Redemption Fund
Fund Balance		
Balance, June 30, 2023, unaudited actuals	$ 4,720,359	8,556,111
Audit adjustments		
Changes in the fair value of investments	-	37,084
Changes to inventory	(174,078)	
Balance, June 30, 2023, audited financial statements	$ 4,546,281	$ 8,593,195

Furthermore the effect of the restatement and resistance error to the general fund resulted in recognition of $5.1 million increasing lease receivables and $4.6 million increasing deferred inflows of resources related to leases. The net effect was an increase to nonspendable fund balance of the general fund of $435 thousand.

Cause
We believe the cause is the turnover of District personnel responsible for financial accounting.

Recommendation
The correcting entries were posted to the general ledger and no additional corrective action is required.

Views of Responsible Officials
We will also conduct additional training for all staff members impacting the financial reporting process. Training will be conducted by outside consulting firm.

Identification as a Repeat Finding
This finding was not reported in the previous year's schedule of findings and questioned costs.

None reported.

None reported.

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