

**FRANKLIN-MCKINLEY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2017**

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FRANKLIN-MCKINLEY SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Franklin-McKinley School District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin-McKinley School District, as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin-McKinley School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Franklin-McKinley School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Franklin-McKinley School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franklin-McKinley School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Klausinek, Trine, Day & Co., LLP". The signature is written in a cursive, flowing style.

Palo Alto, California

November 27, 2017

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

- The Governmental 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.
- The Fiduciary Funds are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the District.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The District's primary source of operating revenue was based on a revenue limit calculation. FY 2013-14 was the first year of implementation of the Local Control Funding Formula ("LCFF"), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations are provided on the basis of target base funding grants per ADA (a "Base Grant") assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons. School districts that serve students of limited English proficiency ("EL" students), students from low income families that are eligible for free or reduced priced meals ("LI" students) and foster youth are eligible to receive additional funding grants. A supplemental grant add-on is authorized for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by the district's percentage of unduplicated EL/LI student enrollment.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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

The District converted Fair Middle School to Bridges Academy as a dependent charter school in 2010-2011. For 2016-2017, the Unduplicated Pupil Percentage is 83.7% for Franklin-McKinley School District and 80.3% for Bridges Academy. The actual P2 ADA is 7,756 includes 433 from Bridges Academy and 41 from COE Special Education program. Due to decline enrollment, the total funded ADA is 8,069 includes Bridges Academy and COE Special Education Program. The combination resulted in total LCFF revenue of \$79.7 million in the General Fund revenues for fiscal year 2016-2017.

The recommended reserves for a district our size equals 3% of General Fund expenditures and other financing uses. The Board of Trustees passed a resolution on June 14, 2011 to maintain a minimum unassigned fund balance of 5% of the District's General Fund annual operating expenditures. If a fund balance drops below 4%, it shall be recovered at a rate of 1% minimally each year. This policy will be revisited each year. At June 30, 2017, the District's available reserves totaled consisting of \$13,142,426 in unassigned fund balance and \$4,908,316 reserved for economic uncertainties. This reserve amount is equal to 18.39% of General Fund expenditures and other financing uses.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

THE DISTRICT AS A WHOLE

Net Position

Table 1			
(Amounts in millions)		Governmental Activities	
		2017	2016
Assets			
Current and other assets	\$ 76.0	\$ 53.3	
Capital assets	149.5	145.9	
Total Assets	225.5	199.2	
Deferred Outflows of Reserves			
Deferred charge on refunding	2.4	1.8	
Deferred outflow related to pension	19.0	9.2	
Total Deferred Outflows	21.4	11.0	
Liabilities			
Current liabilities	11.0	7.9	
Current portion of long-term debt	7.6	7.0	
Long-term debt	224.5	187.3	
Total Liabilities	243.1	202.2	
Deferred Inflows of Reserves			
Deferred inflow related to pension	4.8	7.6	
Net Position			
Net investment in capital assets	44.7	47.5	
Restricted	16.5	13.7	
Unrestricted	(62.2)	(60.8)	
Total Net Position	\$ (1.0)	\$ 0.4	

The District's net position was a deficit \$1.0 million and a positive \$0.4 million as of June 30, 2017, and 2016, respectively. Of these amounts, negative \$62.2 and negative \$60.8 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 \$62.2 million and negative \$60.8 million for fiscal years 2016-2017 and 2015-2016 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 \$62.2 million and \$60.8 million left from governmental activities for fiscal years 2016-2017 and 2015-2016, respectively.

Current assets and current liabilities in 2016-2017 increased by \$22.7 million and \$3.7 million, respectively, from 2015-2016.

Long-term debt increased by \$37.2 million. The main increase is due to the \$30.7 million general obligation bond issuance and approximately \$15 million increase in pension liabilities.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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 \$120.8 and \$110.2 million for 2016-2017 and 2015-2016, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only \$94.0 and \$95.2 million for 2016-2017 and 2015-2016. The cost paid by those who benefited from the programs was \$0.5 and \$0.4 million for 2016-2017 and 2015-2016, or by other governments and organizations who subsidized certain programs with grants and contributions of \$17.7 and \$19.6 million for 2016-2017 and 2015-2016. We paid for the "public benefit" portion of our governmental activities, with general revenue sources, primarily property taxes, in both years.

Table 2		
(Amounts in millions)	Governmental Activities	
	2017	2016
Revenues		
Charges for services	\$ 0.5	\$ 0.4
Operating grants and contributions	17.7	19.6
General revenues:		
Property tax, federal revenue and state apportionment	94.0	95.2
Other general revenues	7.2	7.2
Total Revenues	119.4	122.4
Expenses		
Instruction related	84.5	79.8
Student support services	11.5	10.4
Administration	8.9	6.0
Maintenance and operations	9.2	7.8
Debt Service	5.9	5.6
Other	0.8	0.6
Total Expenses	120.8	110.2
Change in Net Position	(1.4)	12.2
Net Position - Beginning	0.4	(11.8)
Net Position - Ending	\$ (1.0)	\$ 0.4

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

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$65.8 million, which was an increase of \$19.8 million from last year. The primary reason for the increase is related to General Fund, and general obligation bond issuance in the Building Fund.

Table 3		
(Amounts in millions)	Net Cost	
	2017	2016
Instruction	\$ 60.3	\$ 57.0
Instruction related	12.4	10.0
Pupil services	5.9	4.3
Administration	8.5	5.5
Maintenance	9.0	7.6
Interest on long-term obligation	5.9	5.6
Other	0.6	0.2
Totals	\$ 102.6	\$ 90.2

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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 2017.

The District prepared the fiscal year 2016-2017 original adoption budget when the carryovers from fiscal year 2015-2016 were not known. The carryovers, however, were included in the fiscal year 2016-2017 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 2016-2017 adoption budget was prepared. At the end of the fiscal year, however, unspent revenues for some categorical programs will be deferred to the new fiscal year. A schedule showing the District's original and final budget amounts compared with actual final amounts is provided in the required supplementary information, succeeding the financial statement section.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2017, the District had \$149.51 million in capital assets, representing a net increase of \$3.71 million over \$145.80 million in 2016.

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

- Construction in Progress during 2016-2017:
 - Franklin school on its original site with modifications to the Tully street entrance and intersection
 - HVAC units and light upgrades at various schools
 - Cornerstone, charter school expansion
 - Heller school site improvement, clean-up abatement, removal of portables, and a new parking lot
 - Kennedy school addition student's restroom, new shade structure and a new playground

Refer to Capital Assets Note 5 in the financial statements.

Table 4		
(Amounts in millions)	Governmental Activities	
	2017	2016
Capital Assets		
Land	\$ 1.6	\$ 1.6
Construction in progress	12.1	19.7
Buildings and improvements	195.0	176.3
Furniture and equipment	7.7	8.6
Total Assets	216.4	206.2
Accumulated Depreciation		
Buildings and improvements	64.0	56.0
Furniture and equipment	2.9	4.4
Total Accumulated Depreciation	66.9	52.9
Net Capital Assets		
Land	1.6	1.6
Construction in progress	12.1	19.7
Buildings and improvements	131.0	120.3
Furniture and equipment	4.8	4.2
Total	\$149.5	\$145.8

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Long-Term Obligations

At the end of this year, the District had \$232.1 million in outstanding long-term liabilities versus \$194.3 million last year, an increase of \$37.8 million.

The District's Long-term obligations include compensated absences payable, general obligation bonds, certificates of participation, postemployment benefits, capital leases, early retirement incentive and pension liabilities.

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

Net Pension Liability (NPL)

GASB Statements No. 68 and No. 71 introduce new requirements for accrual-basis recognition by state and local governments of employer costs and obligations for pensions. Under the new accounting standards, if the present value of benefits earned by all employees participating in the CalSTRS or CalPERS pension plan exceeds the resources accumulated by the pension plan to benefits, LEAs must now report in their government wide financial statements their proportionate share of the plan's net pension liability. See Note 13 for more detailed information.

Table 5		
(Amounts in millions)	Governmental Activities	
	2017	2016
General obligation bonds	\$104.4	\$ 83.2
Accretion to date	8.5	7.9
Capital leases	15.8	16.2
Bond premium	4.2	4.0
Certificates of participation	4.0	4.3
Postemployment benefits	0.6	0.7
Accumulated vacation - net	0.4	0.3
Pension liabilities	92.4	77.5
Early retirement incentive	1.8	0.2
Totals	\$232.1	\$194.3

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of the District's unrestricted general fund revenues are derived from State and Local income sources through state aid, property taxes, and other state funding. The District has been on a steady course of continuous improvement in academic achievement, closing the achievement gap, improving its facilities, and meeting the priorities of the School Board and community. It is imperative that the District continue this course of success.

The Local Control Funding Formula (LCFF) replaces the former Revenue Limit funding model, which had been the basis of funding for California school districts for over 20 years. At this point, the five-year-old LCFF is nearly fully implemented financially. Achieving this full implementation of LCFF will result in the slowdown of growth funding in the future years. With reaching to 97% of targeted funding levels in 2017-18, it is anticipated that the GAP will be closed in 2020-21. Once the GAP is closed, annual increase to educational funding will rely entirely on the COLA which is projected to be between 2% to 3% each year.

The District will continue to be proactive and vigilant in managing its human and fiscal resources while ensuring that our schools, teachers, staff and students have the resources they need to maintain the excellent educational program the community has come to enjoy and respect. The District will continue to explore new cost savings strategies and revenue enhancement efforts to provide relief to the District's budget.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 71,934,448
Receivables	2,829,070
Prepaid items	623,242
Stores inventories	65,911
Other current assets	242,619
Prepaid insurance cost	272,030
Capital assets not depreciated	13,674,881
Capital assets, net of accumulated depreciation	135,854,078
Total Assets	225,496,279
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,386,312
Deferred outflows related to pensions	19,004,177
Total Deferred Outflows of Resources	21,390,489
LIABILITIES	
Accounts payable	7,193,940
Interest payable	1,803,482
Unearned revenue	1,879,910
Claims liability	99,488
Long-term obligations other than pensions:	
Current portion of long-term obligations other than pensions	7,931,646
Noncurrent portion of long-term obligations other than pensions	131,749,817
Aggregate net pension liability	92,423,137
Total Liabilities	243,081,420
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	4,757,838
Total Deferred Inflows of Resources	4,757,838
NET POSITION	
Net investment in capital assets	44,696,722
Restricted for:	
Educational programs	2,169,035
Food services	868,060
Debt service	7,232,346
Capital projects	5,589,546
Self insurance programs	735,189
Unrestricted	(62,243,388)
Total Net Position	\$ (952,490)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
Governmental Activities				
Instruction	\$ 69,975,715	\$ 218,523	\$ 9,482,421	\$ (60,274,771)
Instruction-related activities:				
Supervision of instruction	4,415,476	116	812,121	(3,603,239)
Instructional library, media, and technology	969,545	-	384,457	(585,088)
School site administration	9,098,552	31,385	835,462	(8,231,705)
Pupil services:				
Home-to-school transportation	1,937,601	-	-	(1,937,601)
Food services	6,339,838	110,603	5,073,767	(1,155,468)
All other pupil services	3,264,072	-	445,626	(2,818,446)
Administration:				
Data processing	1,727,814	-	-	(1,727,814)
All other administration	7,192,938	5,209	418,253	(6,769,476)
Plant services	9,151,373	54,215	121,427	(8,975,731)
Enterprise services	161,114			(161,114)
Interest on long-term obligations	5,934,938	-	-	(5,934,938)
Other outgo	653,542	62,819	162,517	(428,206)
Total Governmental Activities	\$ 120,822,518	\$ 482,870	\$ 17,736,051	(102,603,597)
General revenues:				
Property taxes, levied for general purposes				36,514,401
Property taxes, levied for debt service				9,216,738
Taxes levied for other specific purposes				1,355,762
Federal and state aid not restricted to specific purposes				46,907,621
Interest and investment earnings				322,818
Interagency revenues				447,878
Miscellaneous				6,502,114
Subtotal, General Revenues				101,267,332
Change in Net Position				(1,336,265)
Net Position - Beginning				383,775
Net Position - Ending				\$ (952,490)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	General Fund	Cafeteria Fund	Building Fund
ASSETS			
Deposits and investments	\$ 24,059,999	\$ 609,144	\$ 32,088,624
Receivables	1,726,117	976,633	96,118
Due from other funds	265,574	329	-
Prepaid items	611,242	2,000	-
Stores inventories	-	65,911	-
Total Assets	<u>\$ 26,662,932</u>	<u>\$ 1,654,017</u>	<u>\$ 32,184,742</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,879,804	\$ 520,383	\$ 2,793,753
Due to other funds	9,278	265,574	-
Unearned revenue	1,871,510	-	-
Total Liabilities	<u>5,760,592</u>	<u>785,957</u>	<u>2,793,753</u>
Fund Balances:			
Nonspendable	636,242	67,911	-
Restricted	2,169,035	800,149	29,390,989
Committed	-	-	-
Assigned	46,321	-	-
Unassigned	18,050,742	-	-
Total Fund Balances	<u>20,902,340</u>	<u>868,060</u>	<u>29,390,989</u>
Total Liabilities and Fund Balances	<u>\$ 26,662,932</u>	<u>\$ 1,654,017</u>	<u>\$ 32,184,742</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 9,020,688	\$ 5,584,128	\$ 71,362,583
15,140	13,818	2,827,826
-	-	265,903
-	-	613,242
-	-	65,911
<u>\$ 9,035,828</u>	<u>\$ 5,597,946</u>	<u>\$ 75,135,465</u>

\$ -	\$ -	\$ 7,193,940
-	-	274,852
-	8,400	1,879,910
<u>-</u>	<u>8,400</u>	<u>9,348,702</u>
-	-	704,153
9,035,828	5,589,546	46,985,547
-	-	-
-	-	46,321
-	-	18,050,742
<u>9,035,828</u>	<u>5,589,546</u>	<u>65,786,763</u>
<u>\$ 9,035,828</u>	<u>\$ 5,597,946</u>	<u>\$ 75,135,465</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2017

Total Fund Balance - Governmental Funds		\$ 65,786,763
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	\$ 216,374,724	
Accumulated depreciation is	<u>(66,845,765)</u>	
Net Capital Assets		149,528,959
Deferred inflows and deferred outflows that are related to pension activities are not recorded in the governmental funds, but are recognized on the government-wide financial statements.		
		14,246,339
In governmental funds, prepaid insurance cost relating to issuance of long-term obligations is expensed when paid. On the government-wide financial statements, the cost is recognized over the life of the obligations.		
		272,030
In governmental funds, defeasance cost relating to refunding of long-term obligations is expensed when paid. On the government-wide financial statements, the costs is amortized over the life of the new or old obligation, whichever is shorter.		
		2,386,312
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		
		(1,803,482)
An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		
		735,189
Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	117,158,688	
Certificates of participation	3,975,000	
Capital leases	15,747,880	
Early retirement incentives	1,814,635	
Postemployment benefits	612,815	
Compensated absences (vacations)	372,445	
Net pension liability	<u>92,423,137</u>	
Total Long-Term Obligations		<u>(232,104,600)</u>
Total Net Position - Governmental Activities		\$ <u>(952,490)</u>

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

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FRANKLIN-MCKINLEY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Cafeteria Fund	Building Fund
REVENUES			
Local control funding formula	\$ 79,959,498	\$ -	\$ -
Federal sources	5,064,194	4,843,416	-
Other state sources	9,318,196	327,034	-
Other local sources	5,756,856	583,537	234,625
Total Revenues	100,098,744	5,753,987	234,625
EXPENDITURES			
Current			
Instruction	63,781,752	-	-
Instruction-related activities:			
Supervision of instruction	3,973,509	-	-
Instructional library, media and technology	872,498	-	-
School site administration	8,187,833	-	-
Pupil services:			
Home-to-school transportation	1,743,657	-	-
Food services	737	5,704,515	-
All other pupil services	1,968,642	-	-
Administration:			
Data processing	1,554,869	-	-
All other administration	4,598,892	265,573	-
Plant services	8,101,069	-	-
Other outgo	653,542	-	-
Facility acquisition and construction	613,976	-	10,755,998
Debt service			
Principal	1,537,256	-	-
Interest and other	578,087	-	6,000
Total Expenditures	98,166,319	5,970,088	10,761,998
Excess (Deficiency) of Revenues Over Expenditures	1,932,425	(216,101)	(10,527,373)
Other Financing Sources			
Other sources	368,817	-	24,783,500
NET CHANGE IN FUND BALANCES	2,301,242	(216,101)	14,256,127
Fund Balance - Beginning	18,601,098	1,084,161	15,134,862
Fund Balance - Ending	\$ 20,902,340	\$ 868,060	\$ 29,390,989

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 79,959,498
230,127	-	10,137,737
61,582	524,046	10,230,858
9,636,024	2,171,066	18,382,108
<u>9,927,733</u>	<u>2,695,112</u>	<u>118,710,201</u>
-	-	63,781,752
-	-	3,973,509
-	-	872,498
-	-	8,187,833
-	-	1,743,657
-	-	5,705,252
-	-	1,968,642
-	-	1,554,869
-	-	4,864,465
-	-	8,101,069
-	-	653,542
-	322,326	11,692,300
5,294,999	305,000	7,137,255
3,105,290	117,634	3,807,011
<u>8,400,289</u>	<u>744,960</u>	<u>124,043,654</u>
1,527,444	1,950,152	(5,333,453)
<u>-</u>	<u>-</u>	<u>25,152,317</u>
1,527,444	1,950,152	19,818,864
7,508,384	3,639,394	45,967,899
<u>\$ 9,035,828</u>	<u>\$ 5,589,546</u>	<u>\$ 65,786,763</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances of Governmental Funds **\$ 19,818,864**

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

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

Capital outlays	\$ 12,443,440	
Depreciation expense	<u>(8,489,038)</u>	
Net Expense Adjustment		3,954,402

Loss on disposal of capital assets is reported in the statement of activities, but is not recorded in the governmental funds. (320,759)

Cost of the refunded bonds is recorded as an expenditure in the governmental funds but is recorded as a deferred charge on the statement of net position and does not affect the statement of activities. 738,708

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

General obligation bonds	10,345,000	
Capital lease	1,538,285	
Certificates of participation	<u>305,000</u>	
Total Principal Payments		12,188,285

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

Change in interest payable	(309,400)	
Amortization of bond premium	476,247	
Additional accreted interest	(1,420,620)	
Amortization of defeasance cost	(178,674)	
Amortization of prepaid insurance on refunding	<u>(13,863)</u>	
Total Amortization And Changes In Interest Expenses		(1,446,310)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2017

Proceeds and premium received from sale of general obligation bonds are revenue in the government funds, but increases long-term obligations in the statement of net position and does not affect the statement of activities.	(31,427,406)
Proceeds received from capital leases are revenue in the government funds, but increases long-term obligations in the statement of net position and does not affect the statement of activities.	(1,076,461)
Supplement employee retirement incentive is not current resources, therefore is not recorded in the governmental funds. However, the amount is recognized in the government wide financial statement as liability. The annual payment of the obligations was expensed in the governmental funds but it reduces the liability in the government-wide statement of net position and does not impact the statement of activities. During the year, amounts incurred was more than amounts paid.	(1,574,328)
Compensated absences are recorded in the governmental funds only to the extent that they are paid from current financial resources, while the accrued balances are recorded as long-term obligations in the statement of net position. The net increase or decrease in vacation accrual is recorded in the statement of activities. Vacation used was less than the amounts earned.	(63,389)
Payments to retiree benefits are recorded as an expenditure in the governmental funds when paid. However, on the government-wide statement of net position, the payments reduce the obligations and do not affect the statement of activities.	63,862
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.	(2,303,160)
An internal service fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The increase in net position of the internal service fund is reported with governmental activities.	111,427
Change in Net Position of Governmental Activities	<u>\$ (1,336,265)</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 571,865
Receivables	1,244
Due from other funds	8,949
Prepaid expenses	10,000
Other current assets	242,619
Total Current Assets	834,677
LIABILITIES	
Current Liabilities	
Claim liabilities	99,488
Total Current Liabilities	99,488
NET POSITION	
Restricted	735,189
Total Net Position	\$ 735,189

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-District contribution	\$ 1,555,699
OPERATING EXPENSES	
Insurance and other	1,448,491
Operating Income	107,208
NONOPERATING REVENUES	
Interest income	4,219
Change in Net Position	111,427
Total Net Position - Beginning	623,762
Total Net Position - Ending	\$ 735,189

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 1,550,654
Cash payments for insurance claims	(1,510,145)
Net Cash Provided By Operating Activities	<u>40,509</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>3,701</u>
Net Cash Provided By Investing Activities	<u>3,701</u>
Net Increase In Cash And Cash Equivalents	44,210
Cash and Cash Equivalents - Beginning	<u>527,655</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 571,865</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 107,208
Changes in assets and liabilities	
Due from other fund	(5,045)
Other current assets	(52,907)
Accounts payable	(8,747)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 40,509</u></u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Student Body Agency Funds
ASSETS	
Deposits and investments	\$ 257,572
LIABILITIES	
Due to student groups	\$ 257,572

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

Basis of Presentation - Fund Accounting

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Major Governmental Funds

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

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

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

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

Non-Major Governmental Funds

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

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

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).

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Basis of Accounting – Measurement Focus

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

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

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

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 obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Debt Issuance Costs, Premiums and Discounts

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of 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 the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

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

Pensions

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

Fund Balances – Governmental Funds

As of June 30, 2017, fund balances of the governmental funds are classified as follows:

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

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

Unassigned – all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 5 percent of General Fund expenditures and other financing uses.

Net Position

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

Operating Revenues and Expenses

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements Effective in This Fiscal Year

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement requires state and local governments to disclose information about tax abatement agreements. The Statement is effective for the periods beginning after December 15, 2015, or the fiscal year 2016-17. Please refer to Note 14.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

GASB Statement No. 82 – In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

New Accounting Pronouncements Effective in the Future Fiscal Year

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The objective of the Statement is to replace the requirements of GASB Statement No. 45. In addition, the Statement requires governments to report a liability on the face of the financial statements for the OPEB provided and requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The Statement is effective for the periods beginning June 15, 2017, or the fiscal year 2017-18. The District has not determined the effect of the statement.

GASB Statement No. 81 – In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This pronouncement did not have an impact on the financial statements of the District.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The District has not determined the effect of the statement.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-18 fiscal year. The District has not determined the effect of the statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-21 fiscal year. The District has not determined the effect of the statement.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 71,362,583
Proprietary funds	571,865
Fiduciary funds	257,572
Total Deposits and Investments	<u>\$ 72,192,020</u>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 326,733
Cash in revolving	25,000
Investments	71,840,287
Total Deposits and Investments	<u>\$ 72,192,020</u>

Policies and Practices

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

General Authorizations

Limitations as they relate to 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

Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool. The fair value of the deposits with the County Treasurer at June 30, 2017 was \$71,673,890 and the weighted average maturity of the pool was 528 days.

Custodial Credit Risk - Deposits

Custodial risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The District has no significant custodial credit risk.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 3 – FAIR VALUE MEASUREMENTS

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

Level 1 inputs – quoted prices in active markets for identical assets.

Level 2 inputs – quoted prices in active or inactive for the same or similar assets.

Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized – Investment in the County Treasury Investment Pool are not measure using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. As of June 30, 2017, all of the District's investment is in the Santa Clara county Treasury.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2017, consist of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government							
Categorical aid	\$ 309,183	\$ 957,589	\$ -	\$ -	\$ -	\$ 1,266,772	\$ -
State Government							
State principal							
apportionment	-	-	-	-	-	-	-
Categorical aid	300,237	-	-	-	-	300,237	-
Lottery	740,885	-	-	-	-	740,885	-
Other State	-	-	-	-	-	-	-
Local Government							
Interest	69,180	1,580	96,118	15,140	13,818	195,836	1,244
Other local	306,632	17,464	-	-	-	324,096	-
Total	<u>\$ 1,726,117</u>	<u>\$ 976,633</u>	<u>\$ 96,118</u>	<u>\$ 15,140</u>	<u>\$ 13,818</u>	<u>\$ 2,827,826</u>	<u>\$ 1,244</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,565,500	\$ -	\$ -	\$ 1,565,500
Construction in Progress	19,719,695	10,099,034	17,709,348	12,109,381
Total Capital Assets Not Being Depreciated	21,285,195	10,099,034	17,709,348	13,674,881
Capital Assets Being Depreciated:				
Buildings and Improvements	176,269,696	18,718,505	-	194,988,201
Furniture and Equipment	8,604,965	1,335,249	2,228,572	7,711,642
Total Capital Assets Being Depreciated	184,874,661	20,053,754	2,228,572	202,699,843
Total Capital Assets	206,159,856	30,152,788	19,937,920	216,374,724
Less Accumulated Depreciation:				
Buildings and Improvements	56,004,166	7,961,012	-	63,965,178
Furniture and Equipment	4,260,374	528,026	1,907,813	2,880,587
Total Accumulated Depreciation	60,264,540	8,489,038	1,907,813	66,845,765
Governmental Activities Capital Assets, Net	<u>\$ 145,895,316</u>	<u>\$ 21,663,750</u>	<u>\$ 18,030,107</u>	<u>\$ 149,528,959</u>

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

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

Governmental Activities	
Instruction	\$ 5,297,799
Supervision of instruction	330,045
Instructional library, media, and technology	72,471
School site administration	680,092
Home-to-school transportation	144,830
Food services	473,886
All other pupil services	163,518
Enterprise activities	120,314
All other general administration	404,049
Data processing	129,149
Plant maintenance and operations	672,885
Total Depreciation Expenses Governmental Activities	<u>\$ 8,489,038</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	General Fund	Cafeteria Fund	Self-Insurance Fund	
General Fund	\$ -	\$ 329	\$ 8,949	\$ 9,278
Cafeteria Fund	265,574	-	-	265,574
Total	<u>\$ 265,574</u>	<u>\$ 329</u>	<u>\$ 8,949</u>	<u>\$ 274,852</u>

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

NOTE 7 – DEFERRED OUTFLOWS OF RESOURCES ON REFUNDING

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of \$44,696,722 includes the effect of deferring the recognition of loss from advance refunding. The \$2,386,312 balance of the deferred outflow of resources on refunding at June 30, 2017 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

Deferred outflow of resources on refunding at June 30, 2017 consisted of the following:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Deferred charge on bond refunding	\$ 1,700,648	\$ 738,708	\$ 167,982	\$ 2,271,374
Deferred charge on COP refunding	125,630	-	10,692	114,938
Total	<u>\$ 1,826,278</u>	<u>\$ 738,708</u>	<u>\$ 178,674</u>	<u>\$ 2,386,312</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 8 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consists of the following:

	General Fund	Cafeteria Fund	Building Fund	Total
Vendor payables	\$ 1,071,018	\$ 508,211	\$ 2,793,753	\$ 4,372,982
State apportionment	581,439	-	-	581,439
Salaries and benefits	1,331,362	12,172	-	1,343,534
In-lieu tax to charters	895,985	-	-	895,985
Total	<u>\$ 3,879,804</u>	<u>\$ 520,383</u>	<u>\$ 2,793,753</u>	<u>\$ 7,193,940</u>

NOTE 9 – UNEARNED REVENUE

Unearned revenue at June 30, 2017, consists of the following:

	General Fund	Non-Major Governmental Fund	Total
Federal financial assistance	\$ 65,337	\$ -	\$ 65,337
Other local	1,806,173	8,400	1,814,573
Total	<u>\$ 1,871,510</u>	<u>\$ 8,400</u>	<u>\$ 1,879,910</u>

NOTE 10 – LONG-TERM OBLIGATIONS

Long-Term Obligation Summary

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

	Balance July 1, 2016	Acretion / Additions	Deductions	Balance June 30, 2017	Due in One Year
General obligation bonds	\$ 91,135,740	\$ 32,150,620	\$ 10,345,000	\$ 112,941,360	\$ 5,383,898
Bond premiums	3,996,169	697,406	476,247	4,217,328	295,938
Certificates of participation	4,280,000	-	305,000	3,975,000	315,000
Capital leases	16,209,704	1,076,461	1,538,285	15,747,880	1,145,478
Accumulated vacation - net	309,056	63,389	-	372,445	372,445
Postemployment benefits	676,677	-	63,862	612,815	55,960
Pension liabilities	77,471,858	14,951,279	-	92,423,137	-
Early retirement incentive	240,307	1,814,635	240,307	1,814,635	362,927
Total	<u>\$ 194,319,511</u>	<u>\$ 50,753,790</u>	<u>\$ 12,968,701</u>	<u>\$ 232,104,600</u>	<u>\$ 7,931,646</u>

The Bond Interest and Redemption Fund makes payments on the general obligation bonds with local property tax revenues. The General Fund or the Capital Facilities Fund make payments for the Certificates of Participation.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

The accumulated vacation, postemployment benefits and early retirement incentive will be paid by the fund for which the employee worked.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2017
1999	2017	4.25-5.00%	4,990,000	\$ 285,000	\$ -	\$ 285,000	\$ -
2002	2023	2.70-6.00%	8,999,326	6,692,098	315,136	800,000	6,207,234
2003	2017	3.00-4.90%	5,498,794	100,000	-	100,000	-
2004	2017	2.00-5.00%	14,755,000	1,450,000	-	1,450,000	-
2005	2019	3.50-5.00%	15,999,162	1,438,855	88,193	475,000	1,052,048
2006	2028	3.25-5.25%	6,950,000	6,905,000	-	-	6,905,000
2008	2033	3.50-4.00%	14,000,000	1,740,000	-	1,115,000	625,000
2009	2021	3.50-5.00%	7,340,000	3,850,000	-	800,000	3,050,000
2011	2036	5.25-11.98%	15,163,985	17,434,692	573,162	4,000,000	14,007,854
2012	2036	3.00-4.00%	15,000,000	12,210,000	-	1,100,000	11,110,000
2014	2045	5.00-6.40%	15,000,983	16,080,095	444,129	-	16,524,224
2015	2025	3.00-5.00%	4,690,000	4,690,000	-	-	4,690,000
2015	2038	3.00-5.00%	4,835,000	4,835,000	-	-	4,835,000
2016	2038	3.00-5.00%	13,425,000	13,425,000	-	220,000	13,205,000
2017	2045	3.00-4.00%	25,000,000	-	25,000,000	-	25,000,000
2017	2036	2.00-4.00%	5,730,000	-	5,730,000	-	5,730,000
				<u>\$ 91,135,740</u>	<u>\$ 32,150,620</u>	<u>\$ 10,345,000</u>	<u>\$112,941,360</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Debt Service Requirements to Maturity

The bonds mature through fiscal year 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 5,383,898	\$ 4,664,865	\$ 10,048,763
2019	4,869,781	4,645,716	9,515,497
2020	4,329,988	4,223,893	8,553,881
2021	4,065,612	4,119,707	8,185,319
2022	3,425,518	4,042,613	7,468,131
2023-2027	21,366,238	15,554,768	36,921,006
2028-2032	15,638,730	16,618,648	32,257,378
2033-2037	18,343,680	20,888,695	39,232,375
2038-2042	9,909,928	16,067,747	25,977,675
2043-2046	17,064,224	9,940,226	27,004,450
Subtotal	104,397,597	\$ 100,766,878	\$ 205,164,475
Accretion to date	8,543,763		
Total	\$ 112,941,360		

Advance Refunding

In January 11, 2017, the District issued \$5,730,000 in General Obligation Bonds with an interest rate ranging from two percent to four percent to advance refund \$1,050,000 of outstanding Election of 2004 General Obligation Bonds, Series B and \$4,000,000 of outstanding election of 2010 General Obligation Bonds, Series A with interest rate ranging from 3.5 percent to 5.5 percent. The net proceeds of \$5,744,428 (after payment of \$122,600 costs of issuance) were used to purchase certain Federal Securities. Those securities were deposited in an irrevocable trust with an escrow agent, U.S. Bank National Association, to provide for all future debt service payments on the 2004 Series B bonds. As a result, the 2004 Series B and 2010 Series A bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

The District advance refunded the 2004 Series B and 2010 Series A bonds to reduce its total debt service payments over the next 19 years by \$470,250 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$303,856.

Certificates of Participation

In April 2002, the District issued certificates of participation (2002 Certificates) in the amount of \$13 million through the California School Boards Association Finance Corporation at interest rates ranging from 3.0 to 4.5 percent. In November 2004, \$6.5 million in the 2002 Certificates were called, paid off and removed from long-term debt. In January of 2013, the remaining 2002 Certificates were refunded by the 2013 Refunding Lease. The interest rate on the 2013 Refunding Lease is 2.85% and the final maturity date is September 1, 2027. As of June 30, 2017, the remaining balance outstanding on the 2013 Refunding Lease is \$3,975,000.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

The certificates mature through 2028 as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 315,000	\$ 108,798	\$ 423,798
2019	320,000	99,750	419,750
2020	330,000	90,487	420,487
2021	340,000	80,940	420,940
2022	350,000	71,108	421,108
2023-2027	1,905,000	197,576	2,102,576
2028	415,000	5,914	420,914
Total	<u>\$ 3,975,000</u>	<u>\$ 654,573</u>	<u>\$ 4,629,573</u>

Capital Leases

The District has entered into agreements to lease various vehicles and equipment. Such agreements are, in substance, purchase (capital leases) and are reported as capital lease obligations.

These capital leases mature through 2034 as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 1,145,478	\$ 569,996	\$ 1,715,474
2019	1,063,568	537,560	1,601,128
2020	615,370	510,336	1,125,706
2021	491,483	492,315	1,125,706
2022	531,981	473,583	983,798
2023-2027	3,395,000	1,993,730	5,388,730
2028-2032	5,535,000	1,177,269	6,712,269
2033-2034	2,970,000	143,262	3,113,262
Total	<u>\$ 15,747,880</u>	<u>\$ 5,898,051</u>	<u>\$ 21,766,073</u>

Postemployment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to four employees. The District contributes 100 percent of the amount of premiums incurred by the retirees. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis, as retirees' premiums are paid. During the year, expenditures of \$63,862 were recognized for retirees' health care benefits. The approximate accumulated future liability for the District at June 30, 2017, amounts to \$612,815. This amount was calculated based upon the four retirees receiving benefits multiplied by the District payment in effect at June 30, 2017, multiplied by the number of years of payments remaining.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to \$372,445.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Early Retirement Incentives

In 2016-17, the District provided a Supplemental Early Retirement Incentives Program to eligible employees. The incentive payments through the end of the contract are as follows:

Year ending June 30,	Incentive Payments
2018	\$ 362,927
2019	362,927
2020	362,927
2021	362,927
2022	362,927
Total	<u>\$ 1,814,635</u>

NOTE 11 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Cafeteria Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ 25,000
Stores inventories	-	65,911	-	-	-	65,911
Prepaid expenditures	611,242	2,000	-	-	-	613,242
Total Nonspendable	<u>636,242</u>	<u>67,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>704,153</u>
Restricted						
Educational programs	2,169,035	-	-	-	-	2,169,035
Food services	-	800,149	-	-	-	800,149
Capital projects	-	-	29,390,989	-	5,589,546	34,980,535
Debt services	-	-	-	9,035,828	-	9,035,828
Total Restricted	<u>2,169,035</u>	<u>800,149</u>	<u>29,390,989</u>	<u>9,035,828</u>	<u>5,589,546</u>	<u>46,985,547</u>
Assigned						
Program carryover	46,321	-	-	-	-	46,321
Total Assigned	<u>46,321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,321</u>
Unassigned						
Reserve for						
economic uncertainties	4,908,316	-	-	-	-	4,908,316
Remaining unassigned	13,142,426	-	-	-	-	13,142,426
Total Unassigned	<u>18,050,742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,050,742</u>
Total	<u>\$ 20,902,340</u>	<u>\$ 868,060</u>	<u>\$ 29,390,989</u>	<u>\$ 9,035,828</u>	<u>\$ 5,589,546</u>	<u>\$ 65,786,763</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 12 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2017, the District contracted with Santa Clara County Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

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

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

Insurance Program / Company Name	Type of Coverage	Limits
<u>Workers' Compensation Program</u>		
Santa Clara County School Insurance Group	Workers' Compensation	\$ 1,000,000
<u>Property and Liability Program</u>		
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 its Dental and Vision self-insurance programs. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Unpaid Claims Liabilities

The self-insurance fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2015 to June 30, 2017.

	Dental and Vision
Liability Balance, July 1, 2015	\$ 90,572
Claims and changes in estimates	1,572,471
Claims payments	(1,554,808)
Liability Balance, July 1, 2016	108,235
Claims and changes in estimates	1,439,744
Claims payments	(1,448,491)
Liability Balance, June 30, 2017	\$ 99,488
Assets available to pay claims at June 30, 2017	\$ 834,677

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 69,978,477	\$ 11,864,212	\$ 4,083,510	\$ 6,591,061
CalPERS	22,444,660	7,139,965	674,328	3,212,039
Total	\$ 92,423,137	\$ 19,004,177	\$ 4,757,838	\$ 9,803,100

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRS Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	9.20%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017, are presented above and the District's total contributions were \$5,435,247.

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	69,978,477
State's proportionate share of the net pension liability associated with the District		39,837,499
Total	\$	<u>109,815,976</u>

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.0865 percent and 0.0903 percent, resulting in a net decrease in the proportionate share of 0.0038 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$6,591,061. In addition, the District also recognized pension expense and revenue of \$3,850,714 for support provided by the State. At June 30, 2017, 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	\$ 5,435,247	\$ -
Net differences between projected and actual earnings on plan investments	5,563,255	-
Differences between expected and actual experience	-	1,707,046
Adjustment due to differences in proportionate share	865,710	2,376,464
Total	<u>\$ 11,864,212</u>	<u>\$ 4,083,510</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 is amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2018	\$ 121,371
2019	121,372
2020	3,233,940
2021	2,086,572
Total	<u>\$ 5,563,255</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (534,481)
2019	(534,481)
2020	(534,481)
2021	(534,481)
2022	(534,481)
Thereafter	(545,395)
Total	<u>\$ (3,217,800)</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 100,714,811
Current discount rate (7.60%)	\$ 69,978,477
1% increase (8.60%)	\$ 44,451,530

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPers website under forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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%	6.00%
Required employer contribution rate	11.85%	11.85%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were \$2,064,693.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$16,698,379. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively was 0.1136 percent and 0.1133 percent, resulting in a net increase in the proportionate share of 0.0003 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$3,212,039. At June 30, 2017, 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	\$ 2,064,693	\$ -
Net differences between projected and actual earnings on plan investments	3,482,690	-
Differences between expected and actual experience	965,336	-
Adjustment due to differences in proportionate share	627,246	-
Adjustment due to changes in assumptions	-	674,328
	<u>\$ 7,139,965</u>	<u>\$ 674,328</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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 of Resources
2018	\$ 488,494
2019	488,494
2020	1,596,752
2021	908,950
Total	<u>\$ 3,482,690</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability 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 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 414,534
2019	386,143
2020	117,577
Total	<u>\$ 918,254</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount Rate	Net Pension Liability
1% decrease (6.65%)	\$ 33,487,558
Current discount rate (7.65%)	\$ 22,444,660
1% increase (8.65%)	\$ 13,249,275

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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 \$3,275,147, \$2,843,184 and \$2,152,596 for fiscal years ending June 30, 2017, 2016 and 2015, respectively (828 percent of 2016-2017, 5.541 percent of 2015-2016, and 5.176 percent of 2014-2015 annual payrolls). 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 on the financial statements.

NOTE 14 – TAX ABATEMENTS

As of June 30, 2017, the County of Santa Clara provides a tax abatement program through California Land Conservation Act of 1965, commonly referred to as the Williamson Act.

The Williamson Act affects taxing entity's share of the 1% ad valorem tax (property tax). The Williamson Act enables the County to enter into agreement with private landowners for restricting specific parcels of land to agricultural or related open space use for a ten year period. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value.

As a result of the Williamson Act, the District's property tax revenues were reduced by \$27,960 for the year ended June 30, 2017

NOTE 15 – 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, 2017.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017.

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Bridges School Security and Safety	\$ 211,467	07/31/17
California Clean Energy	1,574,335	08/31/17
Charter School Facilities	21,680	07/31/17
Cornerstone New Construction	911,012	08/31/17
District Modernization	790,034	06/30/17
District Technology	259,000	06/30/17
Energy Conservation	107,379	06/30/17
Franklin New Construction	13,611,795	08/31/18
Hellyer New Construction and Security	2,784,472	09/30/17
Kennedy New Construction and Security	1,370,420	09/30/17
Los Arboles New Construction and Modernization	361,329	07/31/17
Mckinley Modernization and Security Safety	295,408	08/31/17
Meadows Modernization	90,457	07/31/17
Shirakawa Modernization and Security Safety	232,317	05/31/17
Sylvandale Modernization	274,322	08/31/17
Windmill Modernization	191,362	08/31/18
Total	<u>\$ 23,086,789</u>	

NOTE 16 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Santa Clara County Schools Insurance Group (SCCSIG) public entity risk pool and the East Valley Transportation (EVT) joint powers authority (JPA). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage and to provide transportation services for special education students. The relationships between the District, the pool, and the JPA are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements. The District has appointed one board member to the Governing Board of each of these two authorities. During the year ended June 30, 2017, the District made payments of \$487,183 and \$626,604 to SCCSIG and EVT, respectively. Audited financial statements are generally available from the respective entities.

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable) Final to Actual
	Original	Final		
REVENUES				
Local control funding formula	\$ 80,560,526	\$ 79,810,663	\$ 79,959,498	\$ 148,835
Federal sources	4,918,833	5,407,049	5,064,194	(342,855)
Other state sources	8,374,775	9,283,266	9,318,196	34,930
Other local sources	3,630,222	5,779,279	5,756,856	(22,423)
Total Revenues	97,484,356	100,280,257	100,098,744	(181,513)
EXPENDITURES				
Current				
Certificated salaries	44,358,234	45,107,447	44,788,230	319,217
Classified salaries	13,529,358	14,043,293	13,807,684	235,609
Employee benefits	20,907,503	22,050,542	21,641,757	408,785
Books and supplies	3,714,644	3,241,865	3,005,173	236,692
Services and operating expenditures	11,096,015	11,969,610	11,190,872	778,738
Other outgo	333,160	393,440	387,968	5,472
Capital outlay	305,000	1,237,377	1,229,292	8,085
Debt service				
Principal	1,461,559	1,550,517	1,537,256	13,261
Interest and other	609,289	581,841	578,087	3,754
Total Expenditures	96,314,762	100,175,932	98,166,319	2,009,613
Excess (Deficiency) of Revenues Over Expenditures	1,169,594	104,326	1,932,425	1,828,099
Other Financing Sources (Uses):				
Other sources	-	340,000	368,817	28,817
NET CHANGE IN FUND BALANCES	1,169,594	444,326	2,301,242	1,856,916
Fund Balance - Beginning	18,601,098	18,601,098	18,601,098	-
Fund Balance - Ending	\$ 19,770,692	\$ 19,045,424	\$ 20,902,340	\$ 1,856,916

See accompanying note to required supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

CAFETERIA FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
REVENUES				
Federal sources	\$ 5,227,722	\$ 4,940,228	\$ 4,843,416	\$ (96,812)
Other state sources	370,308	328,897	327,034	(1,863)
Other local sources	553,962	564,856	583,537	18,681
Total Revenues	<u>6,151,992</u>	<u>5,833,981</u>	<u>5,753,987</u>	<u>(79,994)</u>
EXPENDITURES				
Current				
Classified salaries	1,952,766	1,893,701	1,887,893	5,808
Employee benefits	1,018,321	1,019,370	905,539	113,831
Books and supplies	2,540,149	2,344,571	2,347,059	(2,488)
Services and operating expenditures	498,941	670,603	564,023	106,580
Other outgo	281,868	276,037	265,574	10,463
Total Expenditures	<u>6,292,045</u>	<u>6,204,282</u>	<u>5,970,088</u>	<u>234,194</u>
NET CHANGE IN FUND BALANCES	(140,053)	(370,301)	(216,101)	154,200
Fund Balance - Beginning	1,084,161	1,084,161	1,084,161	-
Fund Balance - Ending	<u>\$ 944,108</u>	<u>\$ 713,860</u>	<u>\$ 868,060</u>	<u>\$ 154,200</u>

See accompanying note to required supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

MEASUREMENT DATE, JUNE 30	2016	2015	2014
CalSTRS			
District's proportion of the net pension liability	0.0865%	0.0903%	0.0886%
Net pension Liability			
District's proportionate share	\$ 69,978,477	\$ 60,773,479	\$ 51,778,655
State's proportionate share associated with the District	39,837,499	32,142,471	31,266,187
Total	<u>\$ 109,815,976</u>	<u>\$ 92,915,950</u>	<u>\$ 83,044,842</u>
District's covered - payroll	<u>\$ 43,459,687</u>	<u>\$ 38,179,698</u>	<u>\$ 39,899,305</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	161%	159%	130%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.1136%	0.1133%	0.1093%
District's proportionate share of the net pension liability	<u>\$ 22,244,660</u>	<u>\$ 16,698,379</u>	<u>\$ 12,409,447</u>
District's covered - payroll	<u>\$ 13,631,848</u>	<u>\$ 12,539,902</u>	<u>\$ 11,513,178</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	163%	133%	108%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

See accompanying note to required supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2017

FISCAL YEAR ENDED, JUNE 30	2017	2016	2015
CalSTRS			
Contractually required contribution	\$ 5,435,247	\$ 4,662,235	\$ 3,713,348
Contributions in relation to the contractually required contribution	5,435,247	4,662,235	3,713,348
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 43,358,110</u>	<u>\$ 43,459,687</u>	<u>\$ 38,179,698</u>
Contributions as a percentage of covered - payroll	<u>12.54%</u>	<u>10.73%</u>	<u>9.73%</u>
CalPERS			
Contractually required contribution	\$ 2,064,693	\$ 1,614,965	\$ 1,434,816
Contributions in relation to the contractually required contribution	2,064,693	1,614,965	1,434,816
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 14,886,812</u>	<u>\$ 13,631,848</u>	<u>\$ 12,539,902</u>
Contributions as a percentage of covered - payroll	<u>13.87%</u>	<u>11.85%</u>	<u>11.44%</u>

See accompanying note to required supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

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 in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations. CalPERS discount rate was changed from 7.50% to 7.65% in 2016.

Schedule of District Pension Contributions

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.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$2,325,614
Title II, Part A, Teacher Quality	84.367	14341	629,814
Title III, Limited English Proficient Student Program	84.365	14346	432,468
Special Education Cluster:			
Basic Local Assistance	84.027	13379	\$1,350,281
Preschool Local Entitlement	84.027A	13682	169,917
Mental Health ADA Allocation, Part B	84.027A	15197	93,607
Preschool Grant	84.173	13430	61,877
Preschool Staff Development, Part B	84.173A	13431	616
Total Special Education Cluster			<u>1,676,298</u>
Total U.S. Department of Education			<u>5,064,194</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
National School Lunch	10.555	13391/13396	3,261,144
Basic School Breakfast	10.553	13390	70,372
Especially Needy Breakfast	10.555	13526	956,506
Commodity Supplemental Food Program ²	10.555	¹	<u>67,731</u>
Total Child Nutrition Cluster			4,355,753
Child and Adult Care Food Program	10.558	13393	489,394
Fresh Fruit and Vegetable Program	10.582	14968	<u>66,000</u>
Total U.S. Department of Agriculture			<u>4,911,147</u>
Total Expenditures of Federal Awards			<u>\$9,975,341</u>

¹ Pass-Through Entity Identifying Number not available

² Not recorded in the financial statements

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

ORGANIZATION

The Franklin-McKinley School District was established in 1948 and consists of an area comprising approximately 10 square miles. The District operates 14 elementary schools and three middle schools, one of which operates as a conversion charter school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
George Sanchez	President	2020
Thanh Tran	Vice President	2018
Omar Torres	Clerk	2018
Rudy Rodriguez	Member	2018
John Lindner	Member	2020

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Juan Cruz	District Superintendent
Megan Lamken	Assistant Superintendent, Business Services
Stella Kemp	Assistant Superintendent, Educational Services
Paula Boling	Assistant Superintendent, Human Resources
Joanne Chin	Director, Fiscal Services

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
DISTRICT		
Regular ADA		
Transitional kindergarten through third	3,299.51	3,296.72
Fourth through sixth	2,619.35	2,609.37
Seventh and eighth	1,349.14	1,344.76
Total Regular ADA	7,268.00	7,250.85
Extended Year Special Education		
Transitional kindergarten through third	3.38	3.38
Fourth through sixth	2.35	2.35
Seventh and eighth	1.41	1.41
Total Extended Year Special Education	7.14	7.14
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.50	2.32
Fourth through sixth	2.25	2.11
Seventh and eighth	1.29	1.41
Total Special Education, Nonpublic, Nonsectarian Schools	6.04	5.84
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.57	0.57
Fourth through sixth	0.53	0.53
Seventh and eighth	0.24	0.24
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	1.34	1.34
Total District ADA	7,282.52	7,265.17
BRIDGES CHARTER SCHOOL		
Regular Classroom-based ADA		
Seventh and eighth	431.92	430.83
Total Regular ADA	431.92	430.83
Regular Non-Classroom-based ADA		
Seventh and eighth	0.78	0.55
Total Regular ADA	0.78	0.55
Total Charter School ADA	432.70	431.38

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2017

DISTRICT

Grade Level	1986-87	2016-17	<u>Number of Days</u>	Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	36,000	44,485	180	Complied
Grade 1	50,400	50,875	180	Complied
Grade 2	50,400	50,875	180	Complied
Grade 3	50,400	50,875	180	Complied
Grade 4	54,000	54,100	180	Complied
Grade 5	54,000	54,100	180	Complied
Grade 6	54,000	54,100	180	Complied
Grade 7	54,000	54,450	180	Complied
Grade 8	54,000	54,450	180	Complied

BRIDGES CHARTER SCHOOL

Grade Level	1986-87	2016-14	<u>Number of Days</u>	Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	
Grade 7	54,000	55,684	180	Complied
Grade 8	54,000	55,684	180	Complied

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

There were no adjustments to the Unaudited Actual Financial Report, which require reconciliation to the audited financial statements as of June 30, 2017.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2017

	(Budget) 2018 ¹	2017	2016	2015
GENERAL FUND				
Revenues	\$ 93,267,235	\$ 100,098,744	\$ 102,221,059	\$ 88,644,012
Other sources	-	368,817	1,070,476	1,673,041
Total revenues	93,267,235	100,467,561	103,291,535	90,317,053
Expenditures	98,383,954	98,166,319	93,763,745	90,562,597
INCREASE IN FUND BALANCE	\$ (5,116,719)	\$ 2,301,242	\$ 9,527,790	\$ (245,544)
ENDING FUND BALANCE	\$ 15,785,621	\$ 20,902,340	\$ 18,601,098	\$ 9,073,308
AVAILABLE RESERVES ^{2,3}	\$ 12,934,022	\$ 18,050,742	\$ 14,552,546	\$ 7,006,497
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	13.15%	18.39%	15.52%	7.74%
LONG-TERM OBLIGATIONS	\$ 224,535,881	\$ 232,104,600	\$ 194,319,511	\$ 184,353,065
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	7,343	7,715	8,255	8,641

The General Fund balance has increased by \$5,526,538 over the past two years. The fiscal year 2017-2018 budget projects a decrease of \$5,116,719 (35%). 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 two of the past three years, but anticipates incurring an operating deficit during the 2017-18 fiscal year. Total long-term obligations have increased by \$47,751,535 over the past two years. The significant increases are due to the \$30.7 million new bond issuance and approximately \$28 million increase in pension liabilities.

Average daily attendance has decreased by 926 over the past two years. The District anticipates a further decrease of 372 ADA during fiscal year 2017-2018.

¹ Budget 2018 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$3,275,147, \$2,843,184, and \$2,152,596, in the General Fund have been included in revenues, expenditures and the calculation of available reserves percentage for fiscal years ending June 30, 2017, 2016, and 2015, respectively.

⁴ Average daily attendance includes Bridges Charter Schools.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS JUNE 30, 2017

Name of Charter School	Included in Audit Report
Bridges Academy	Yes
Cornerstone Academy Preparatory School	No
Rocketship Mosaic Elementary Charter School	No
Voices College-Bound Language Academy	No
Rocketship Spark Academy	No
KIPP Heritage Academy	No
ACE Franklin McKinley	No

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2017

	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 3,930,655	\$ 1,653,473	\$ 5,584,128
Receivables	9,478	4,340	13,818
Total Assets	<u>\$ 3,940,133</u>	<u>\$ 1,657,813</u>	<u>\$ 5,597,946</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue	\$ 8,400	\$ -	\$ 8,400
Fund Balances:			
Restricted	3,931,733	1,657,813	5,589,546
Total Liabilities and Fund Balances	<u>\$ 3,940,133</u>	<u>\$ 1,657,813</u>	<u>\$ 5,597,946</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
REVENUES			
Other state sources	\$ -	\$ 524,046	\$ 524,046
Other local sources	1,998,579	172,487	\$ 2,171,066
Total Revenues	<u>1,998,579</u>	<u>696,533</u>	<u>2,695,112</u>
EXPENDITURES			
Current			
Facility acquisition and construction	11,812	310,514	322,326
Debt service			
Principal	305,000	-	305,000
Interest and other	117,634	-	117,634
Total Expenditures	<u>434,446</u>	<u>310,514</u>	<u>744,960</u>
Excess of Revenues Over Expenditures	<u>1,564,133</u>	<u>386,019</u>	<u>1,950,152</u>
NET CHANGE IN FUND BALANCES	1,564,133	386,019	1,950,152
Fund Balance - Beginning	<u>2,367,600</u>	<u>1,271,794</u>	<u>3,639,394</u>
Fund Balance - Ending	<u>\$ 3,931,733</u>	<u>\$ 1,657,813</u>	<u>\$ 5,589,546</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 10,137,737
Federal Reimbursement of Qualified School Construction	Not Available	(230,127)
Fair Market Value of Commodities	10.558	67,731
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,975,341</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

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 budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Franklin-McKinley School District
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin-McKinley School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Franklin-McKinley School District's basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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



Palo Alto, California
November 27, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Franklin-McKinley School District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Franklin-McKinley School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Franklin-McKinley School District's (the District) major Federal programs for the year ended June 30, 2017. Franklin-McKinley School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Franklin-McKinley School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

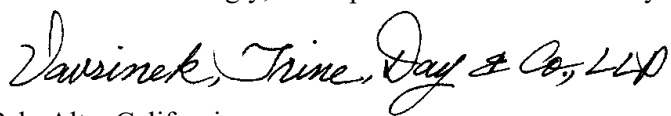
Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Palo Alto, California
November 27, 2017



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Franklin-McKinley School District
San Jose, California

Report on State Compliance

We have audited Franklin-McKinley School District's compliance with the types of compliance requirements as identified in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Franklin-McKinley School District's State government programs as noted below for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Franklin-McKinley School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Franklin-McKinley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Franklin-McKinley School District's compliance with those requirements.

Unmodified Opinion

In our opinion, Franklin-McKinley School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Mental Health Expenditures	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

The District does not offer a Continuation Education, Early Retirement Incentive, Juvenile Court Schools, Middle or Early College High Schools, Before School Education and Safety Program, Independent Study - Course Based Program, and Charter School Facility Grant Program; therefore, we did not perform procedures related to these Programs.

In addition, we did not perform testing for independent study, non classroom-based instruction/independent study and determination of funding for non classroom-based instruction because ADA generated from these programs are below testing threshold.

A handwritten signature in black ink that reads "Vavrinek, Trine, Day & Co, LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
November 27, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173 and 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

Summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

State Awards Findings

2016-003 Code: 72000

Title: *School Accountability Report Card*

Finding

One out of the six schools selected for SARC testing, the FIT report did not match the SARC report.

Recommendation

Interdepartmental communication should ensure that information is shared across departments.

Current Status

Resolved.