

In the opinion of Parker & Covert LLP, Sacramento, California ("Bond Counsel"), subject to certain qualifications described herein, based upon an analysis of existing law, interest on the Bonds maturing on or after August 1, 2021 (the "Tax-Exempt Bonds") is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. Bond Counsel further observes that interest on the Bonds maturing on September 1, 2020 (the "Federally Taxable Bonds") is not excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Matters."

\$27,000,000*

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2020 General Obligation Bonds
Series A**

Dated: Date of Delivery

Due: August 1, as set forth on inside cover

The Franklin-McKinley School District (Santa Clara County, California) Election of 2020 General Obligation Bonds, Series A (the "Bonds") were authorized at an election of the registered voters of the Franklin-McKinley School District (the "District") held on March 3, 2020, at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$80,000,000 principal amount of general obligation bonds of the District. The Bonds are being issued by the District to (i) finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities and (ii) pay the costs of issuance of the Bonds.

The Bonds are general obligations of the District, payable solely from the proceeds of *ad valorem* taxes levied within the territory of the District, which the Board of Supervisors of Santa Clara County is empowered and obligated to levy, upon all property within the District subject to taxation by the District, without limitation as to rate or amount (except upon certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds when due. See "The Bonds – Security and Sources of Payment."

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See "The Bonds – Book Entry Only System."

Interest on the Tax-Exempt Bonds accrues from their date of delivery and is payable on February 1, 2021, and semiannually thereafter on February 1 and August 1 of each year. Interest on the Federally Taxable Bonds accrue interest from their date of delivery and is payable at maturity on September 1, 2020. Payments of principal of and interest on the Bonds will be paid by U.S. Bank National Association, San Francisco, CA, as Paying Agent, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners of the Bonds.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See "The Bonds – Redemption."

This cover page contains information for quick reference only. It is not a summary of all the provisions of the Bonds. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision.

MATURITY SCHEDULE

(on inside front cover)

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Parker & Covert LLP, Sacramento, California, Bond Counsel and Disclosure Counsel to the District. Certain matters will also be passed upon for the Underwriter by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California, as Counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of The Depository Trust Company, on or about August 4, 2020.

RAYMOND JAMES

This Official Statement is dated [SALE DATE].

* Preliminary, subject to change

MATURITY SCHEDULE

\$27,000,000*

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2020 General Obligation Bonds,
Series A**

Federally Taxable Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP®†
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Tax-Exempt Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP®†
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\$ _____ % Term Bond due [Date] – Yield: ____ . ____ % - Price: _____ % - CUSIP®† _____

\$ _____ % Term Bond due [Date] – Yield: ____ . ____ % - Price: _____ % - CUSIP®† _____

† CUSIP Copyright 2020, CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

* Preliminary, subject to change

FRANKLIN-MCKINLEY SCHOOL DISTRICT
Santa Clara County, California

BOARD OF EDUCATION

George Sanchez, President
Maimona Afzal Berta, Vice President
Thanh Tran, Clerk,
Kerry Rosado, Member
Rudy Rodriguez, Member

DISTRICT ADMINISTRATION

Juan Cruz, Superintendent
Jason Vann, Assistant Superintendent, Business Services
Joanne Chin, Director of Fiscal Services

BOND COUNSEL AND DISCLOSURE COUNSEL

Parker & Covert LLP
Sacramento, California

FINANCIAL ADVISOR

Isom Advisors, a Division of Urban Futures, Inc.
Walnut Creek, CA

PAYING AGENT

U.S. Bank National Association
San Francisco, CA

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the District or the Underwriter.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

Estimates and Forecasts. When used in this Official Statement and in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements.” Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated above, and those public offering prices may be changed from time to time by the Underwriter.

Involvement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Document Summaries. All summaries of documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

Website. The District maintains a website. The information presented on the website, however, is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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OFFICIAL STATEMENT

\$27,000,000*

FRANKLIN-MCKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2020 General Obligation Bonds,
Series A

INTRODUCTION

This Official Statement, which includes the cover page, inside cover pages and appendices hereto, provides information in connection with the sale of the Franklin-McKinley School District (Santa Clara County, California) Election of 2020 General Obligation Bonds, Series A (the “Bonds”).

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and the detailed information contained in the entire Official Statement, including the cover page, inside cover pages and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

General

The Franklin-McKinley School District (the “District”) was established in January 1948 and serves students in grades K-8. The District encompasses approximately 11.9 square miles, is located approximately 50 miles south of San Francisco, and serves a portion of the City of San Jose and certain unincorporated areas of Santa Clara County (the “County”). The District operates one elementary school for kindergarten through third grade, eight elementary schools for kindergarten through sixth grade, three elementary schools for kindergarten through eighth grade, one elementary school for fourth through eighth grade, and three middle schools for seventh through eighth grade. The District has projected fiscal year 2019-20 and 2020-21 average daily attendance (“ADA”) of 6,871 students and 6,649 students, respectively. The District’s assessed valuation for fiscal year 2019-20 is \$10,558,914,204. See “Franklin-McKinley School District” herein.

The District is governed by a five-member Board of Education (the “Board”), each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District’s other personnel. Juan Cruz currently serves as the District’s Superintendent.

For more information regarding the District generally, see “District Financial Information” and “Franklin-McKinley School District,” herein and for more information regarding the District’s assessed valuation, see “Tax Base for Repayment of Bonds” herein.

COVID-19 Disclosure

In late 2019 an outbreak of a respiratory disease caused by a new strain of coronavirus (“COVID-19”) was first detected in China and has subsequently spread globally. The federal and State governments

* Preliminary, subject to change

have both declared public health emergencies and taken action, along with local governments, to limit the spread of the outbreak and reduce the resulting economic impact. Investors are cautioned that, at this time, the District cannot predict the outbreak's extent or duration or the impacts that the COVID-19 pandemic may have on its operations and finances, enrollment and ADA, property values in the District, and economic activity in the District and the State. Additionally, the District cannot predict how responses by federal, State or local authorities may impact the District's financial condition, the assessed value of real property in the District, or property tax collections within the District. The District's schools are closed for the remainder of the 2019-20 academic year, and the District has transitioned to distance learning. See "Disclosure Relating to COVID-19."

Purpose of the Bonds

The Bonds are being issued by the District to (i) finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, including prepayment of all or a portion of an existing lease that refunded prior certificates of participation issued to finance the installation of solar panels throughout the District and construct school buildings at Ramblewood Elementary School (see "Franklin-McKinley School District – District Debt Structure – Refunding Lease"), consistent with the school facilities projects set forth in the ballot measure approved by the District's voters at an election held on March 3, 2020 (see "The Bonds – Authority for Issuance"), and (ii) pay the costs of issuance of the Bonds.

See "Plan of Finance – Application and Investment of Bond Proceeds" and "Plan of Finance – Estimated Sources and Uses of Funds" herein.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to certain provisions of the State of California Government Code and pursuant to a resolution adopted by the Board. See "The Bonds – Authority for Issuance" herein.

Sources of Payment for the Bonds

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to levy such *ad valorem* taxes, upon all property within the District subject to taxation thereby, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds when due. For more complete information regarding the District's financial condition and taxation of property within the District, see "The Bonds – Security and Sources of Payment," "Tax Base for Repayment of Bonds," "District Financial Information" and "Franklin-McKinley School District" herein.

The impact of the COVID-19 outbreak on assessed valuation of property located within the District is uncertain at this time. See "The Bonds – Security and Sources of Payment" and "Tax Base for Repayment of Bonds" herein.

Description of the Bonds

Form and Registration. The Bonds will be issued in fully registered form only, without coupons. The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (the "DTC"), who will act as securities depository for the Bonds. See "The Bonds – General Provisions" and "The Bonds – Book-Entry Only System" herein. Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interests in the

Bonds purchased. In the event that the book-entry only system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Paying Agent Agreement (as defined herein). See “The Bonds – Discontinuation of Book-Entry Only System; Registration, Payment and Transfer of Bonds” herein.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the “Owners,” “Bondowners” or “Holders” of the Bonds (other than under the caption “TAX MATTERS” and in Appendix A) will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

Denominations. Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 principal amount, or any integral multiple thereof.

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption as further described herein. See “The Bonds – Redemption” herein.

Payments. The Bonds will be dated as of the date of their initial delivery (the “Date of Delivery”).

Interest on the Tax-Exempt Bonds accrues from the Date of Delivery, and is payable semiannually on each February 1 and August 1, commencing February 1, 2021 (each, a “Bond Payment Date”). The Federally Taxable Bonds accrue interest from their date of delivery and are payable at maturity on September 1, 2020. Principal of the Tax-Exempt Bonds is payable on August 1, in the amounts and years as shown on the inside cover pages hereof. Payments of the principal of and interest on the Bonds will be made by U.S. Bank National Association, acting as the designated paying agent, bond registrar and transfer agent (the “Paying Agent”), to DTC for subsequent disbursement through DTC Participants (as defined herein) to the Beneficial Owners of the Bonds.

Tax Matters

In the opinion of Parker & Covert LLP, Sacramento, California (“Bond Counsel”), based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excludable from gross income for federal income tax purposes, and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Federally Taxable Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel further observes that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “Tax Matters.”

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC in New York, New York, on or about August 4, 2020.

Continuing Disclosure

The District has covenanted that it will comply with and carry out the provisions of that certain Continuing Disclosure Certificate relating to the Bonds. Pursuant thereto, the District will covenant for the benefit of the Owners and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain listed events,

in compliance with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be made available and of the notices of listed events is summarized below under “Legal Matters – Continuing Disclosure” herein and “Appendix C – Form of Continuing Disclosure Certificate” attached hereto.

Professionals Involved in the Offering

Parker & Covert LLP, Sacramento, California, is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Bonds. Isom Advisors, a Division of Urban Futures, Inc., Walnut Creek, California, is acting as financial advisor to the District with respect to the Bonds. Parker & Covert LLP and Isom Advisors, a Division of Urban Futures, Inc. will each receive compensation from the District contingent upon the sale and delivery of the Bonds. Certain matters will be reviewed for the Underwriter (as defined herein) by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California. U.S. Bank National Association will act as Paying Agent for the Bonds.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available from the Franklin-McKinley School District, 645 Wool Creek Drive, San Jose, California 95112, telephone: (408) 283-6000. The District may impose a charge for copying, mailing and handling.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each such documents, statutes and constitutional provisions.

The information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Paying Agent Agreement (as defined herein).

THE BONDS

Authority for Issuance

The Bonds are issued pursuant to the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the State Government Code, and pursuant to a paying agent agreement (the “Paying Agent Agreement”) by and between the District and the Paying Agent, dated as of July 1, 2020, and a resolution adopted by the Board of Education on June 9, 2020 (the “District Resolution”).

The Bonds are being issued pursuant to the Constitution and laws of the State of California, including Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and other applicable provisions of law, and including applicable provisions of the California Education Code, a paying agent agreement dated July 1, 2020, by and between the District and the Paying Agent (the “Paying Agent Agreement”), and a resolution adopted by the Board of Education on June 9, 2020 (the “District Resolution”).

The District received authorization at an election held on March 3, 2020, by the requisite 55% or more of the votes cast by eligible voters of the District to issue \$80,000,000 aggregate principal amount of general obligation bonds (the “2020 Authorization”). The Bonds are the first series of bonds issued under the 2020 Authorization. Following the issuance thereof, there will be \$53,000,000* remaining 2020 Authorization.

Security and Sources of Payment

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds when due. The levy may include allowance for an annual reserve, established for the purpose of avoiding fluctuating tax levies. The County, however, is not obligated to establish such a reserve, and the District can make no representation that such reserve will be established by the County or that such a reserve, if previously established by the County, will be maintained in the future.

Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be placed by the County in the Debt Service Fund (as defined herein), which is required to be segregated and maintained by the County and which is designated for the payment of the principal of the Bonds, and interest thereon when due, and for no other purpose. Pursuant to the Paying Agent Agreement, the District has pledged funds on deposit in the Debt Service Fund to the payment of the Bonds. Although the County is obligated to levy *ad valorem* property taxes for the payment of the Bonds, as described above, and will maintain the Debt Service Fund (defined herein), the Bonds are not a debt of the County.

Pursuant to Section 53515 of the State Government Code, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment thereof. The liens automatically attach, without further action or authorization by the Board, and are valid and binding from the time the Bonds are executed and delivered. The revenues received pursuant to the levy and collection of the *ad valorem* property tax will be immediately subject to the liens, and such liens will be enforceable against the District, its successor, transferees and creditors, and all other parties

* Preliminary, subject to change

asserting rights therein, irrespective of whether such parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of, and interest on the Bonds as the same become due and payable, will be transferred to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal and interest to its Participants for subsequent disbursement to the Beneficial Owners of the Bonds.

The amount of the annual *ad valorem* property taxes levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rates to fluctuate. Economic and other factors beyond the District's control, such as general market decline in land values, disruption in financial markets that may reduce the availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood, fire, drought or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the respective annual tax rates. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "Constitutional and Statutory Provisions Affecting District Revenues and Appropriations – Article XIII A of the California Constitution" and "Tax Base for Repayment of Bonds – Assessed Valuations" herein.

General Provisions

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. See "—Book-Entry Only System" herein. Beneficial Owners will not receive certificates representing their interest in the Bonds. The Bonds will be dated as of the Date of Delivery.

Interest with respect to the Tax-Exempt Bonds accrues from the Date of Delivery and is payable semiannually on each Bond Payment Date, commencing February 1, 2021. Interest on the Federally Taxable Bonds are payable on September 1, 2020. Interest on the Bonds will be computed on the basis of a 360-day year of twelve, 30-day months. The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof, and mature on August 1, in the years and amounts set forth on the inside cover pages hereof.

Payment. Payment of interest on any Tax-Exempt Bond on any Bond Payment Date or on any Federally Taxable Bond on its maturity date will be made to the person appearing on the registration books of the Paying Agent as the registered Owner thereof as of the 15th day of the month immediately preceding such Bond Payment Date with respect to the Tax-Exempt Bonds or the maturity date with respect to the Federally Taxable Bonds (the "Record Date"), such interest to be paid by wire transfer to the bank and account number on file with the Paying Agent as of the Record Date. The principal of and interest on the Bonds, and redemption premiums, if any, shall be payable in lawful money of the United States of America to the registered Owner thereof, upon the surrender thereof at the designated corporate trust office of the Paying Agent. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. So long as the Bonds are held in the book-entry system of DTC, all payments of principal of, and interest on the Bonds will be made by the Paying Agent to Cede & Co. (as a nominee of DTC), as the registered owner of the Bonds.

Annual Debt Service

The following table displays the annual debt service requirements of the District for the Bonds (assuming no optional redemptions):

Year Ending August 1	Annual Principal Payment	Annual Interest Payment	Total Annual Debt Service Payment
(1)	\$	\$	\$
<hr/>			
Total			

⁽¹⁾ Includes debt service for Federally Taxable Bonds maturing September 1, 2020. Debt service on the Tax-Exempt Bonds will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2021.

See “Franklin-McKinley School District – District Debt Structure – General Obligation Bonds” herein for a full table of the annual debt service requirements for the District’s outstanding general obligation bonded debt.

Redemption

Optional Redemption. The Bonds maturing on and before August 1, 20__, are not subject to optional redemption prior to maturity. The Bonds maturing on or after August 1, 20__, are subject to redemption prior to their respective stated maturity dates, at the option of the District, as a whole or in part among maturities on such basis as shall be designated by the District and by lot within each maturity, from any source of available funds, on any date on or after August 1, 20__, at a redemption price equal to the principal amount of Bonds called for redemption, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing by their respective terms on August 1, 20__ (the “20__ Term Bond”) and on August 1, 20__ (the “20__ Term Bond,” and together with the 20__ Term Bond, the “Term Bonds”) are subject to mandatory redemption by the District prior to their respective maturities in part, by lot, from Mandatory Redemption Payments in the following amounts and on the following dates, at the principal amounts thereof on the date fixed for redemption without premium.

20__ Term Bond

<u>Mandatory Redemption Date</u> <u>(August 1)</u>	<u>Mandatory Redemption</u> <u>Payment</u>
*	\$

* *Final Maturity*

20__ Term Bond

<u>Mandatory Redemption Date</u> <u>(August 1)</u>	<u>Mandatory Redemption</u> <u>Payment</u>
*	\$

* *Final Maturity*

In the event that a portion of any Term Bond is optionally redeemed prior to maturity, the remaining Mandatory Redemption Payments shown above shall be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000 of principal amount, in respect of the portion of such Term Bond optionally redeemed.

Selection of Bonds for Redemption. Whenever provision is made for the optional redemption of Bonds and less than all outstanding Bonds of a maturity are to be redeemed, the Paying Agent will select particular Bonds for redemption from the outstanding Bonds of such maturity that have not previously been called for redemption, by lot in such manner as the Paying Agent will determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof.

Notice of Redemption. When optional redemption is authorized or required pursuant to the Paying Agent Agreement, upon written instruction from the District, the Paying Agent will give notice (a “Redemption Notice”) of the redemption of the Bonds not fewer than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Bond Register and shall file such notice on the same day with the Municipal Securities Rulemaking Board (MSRB) through its EMMA website.

The Redemption Notice shall state (a) the date of such notice; (b) the series designation of the Bonds; (c) the date of issue of the series of Bonds; (d) the redemption date; (e) the redemption price; (f) the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent); (g) the CUSIP number (if any) of the maturity or maturities; and (h) if less than all of any such maturity, the distinctive certificate numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the bond obligation at maturity thereof to be redeemed. Each notice of redemption shall either (a) explicitly state that the proposed redemption is conditioned on there being on deposit on the redemption date sufficient money to pay in full the redemption price of the Bonds or portions thereof to be redeemed; or (b) be sent only if sufficient money to pay in full

the redemption price of the Bonds or portions thereof to be redeemed is on deposit. Each such notice shall also (a) state that on said date there will become due and payable on each of said Bonds the redemption price thereof or of said specified portion of the bond obligation thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption; (b) state that from and after such redemption date interest thereon shall cease to accrue; and (c) require that such Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice.

Failure by the Paying Agent to file notice with MSRB or failure of any Owner to receive notice of any defect in any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Paying Agent to mail or otherwise deliver notice to any one or more of the respective Owners of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Owner or Owners to whom such notice was mailed or delivered.

Conditional Notice of Redemption. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason sufficient monies are not available on the date fixed for redemption for such purpose. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond of notice of such rescission is not a condition precedent to rescission, and failure to receive such notice or any defect in such notice does not affect the validity of the rescission.

Partial Redemption of Bonds. Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the Owner thereof a new Bond or Bonds of like series, tenor and maturity and of authorized denominations equal in principal amount to the unredeemed portion of the Bond surrendered (the "Transfer Amount"). Such partial redemption is valid upon payment of the amount required to be paid to such Owner, and the District will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Notice of Redemption. The Redemption Notice having been given as described above, and the moneys for the redemption (including the interest accrued to the applicable date of redemption) having been set aside as described in "—Defeasance" herein, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, moneys for the redemption of all the Bonds to be redeemed, together with interest accrued to such redemption date, shall be held in trust, so as to be available therefor on such redemption date, and if a Redemption Notice thereof shall have been given as described above, then from and after such redemption date, interest on the Bonds to be redeemed will cease to accrue and become payable. All money held for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds to be so redeemed.

Bonds No Longer Outstanding. When any Bonds (or portions thereof), which have been duly called for redemption prior to maturity pursuant to the corresponding Paying Agent Agreement, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, in form satisfactory to it, and sufficient moneys shall be held irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof and accrued interest thereon to the date fixed for redemption, then such Bonds will no longer be deemed outstanding and shall be surrendered to the Paying Agent for cancellation.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriter take any responsibility for the accuracy or completeness thereof. The District and the Underwriter cannot and do not give any assurances that DTC, DTC Direct Participants or Indirect Participants (as defined herein) will distribute to the Beneficial Owners (a) payments of principal of, or interest or premium, if any, on the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered Owner of the Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," and together with the Direct Participants, the "Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the District Paying Agent Agreement. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds or distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

For every transfer and exchange of Bonds, Owners requesting such transfer or exchange may be charged a sum sufficient to cover any tax, governmental charge or transfer fees that may be imposed in relation thereto, which charge may include transfer fees imposed by the Paying Agent, DTC or the DTC Participant in connection with such transfers or exchanges.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to the Owners thereof.

Discontinuation of Book-Entry Only System; Registration, Exchange and Transfer of Bonds

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain at its principal office all books and records necessary for the registration, exchange and transfer of such Bonds, which shall at all times be open to inspection by the District, and, upon presentation for such purpose, the Paying Agent shall, under such reasonable regulations as it may prescribe, register, exchange or transfer or cause to be registered, exchanged or transferred, on said books, Bonds as provided in the District Paying Agent Agreement.

In the event that the book-entry only system as described herein is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds:

The principal of the Bonds and any interest upon the redemption thereof prior to maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the designated office of the Paying Agent. Interest on the Bonds will be paid by the Paying Agent by either (i) check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered Owner, and to that person's address appearing on the registration books as of the close of business on the Record Date, or (ii) by wire to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of like series, tenor, maturity and Transfer Amount upon presentation and surrender at the designated office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the designated office of the Paying Agent together with an assignment executed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent will complete, authenticate and deliver a new bond or bonds of like series and tenor, and of any authorized denomination or denominations requested by the Owner equal to the Transfer Amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to (a) issue or transfer any Bonds during a period beginning with the opening of business on the 16th day next preceding either any Bond Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Bond Payment Date or any day on which the applicable Redemption Notice is given or (b) transfer any Bonds which have been selected or called for redemption in whole or in part.

Defeasance

If at any time the District shall pay or cause to be paid or there shall otherwise be paid to the Registered Owners of all outstanding Bonds all of the principal, interest, and premium, if any, represented by the Bonds, then such Registered Owners shall cease to be entitled to the obligation to levy taxes for payment of the Bonds, and such obligation and all agreements and covenants of the District to such Registered Owners shall thereupon be satisfied and discharged and shall terminate, except only that the District shall remain liable for payment of all principal of, and interest, and premium, if any, on the Bonds, but only out of monies on deposit in the Debt Service Fund or otherwise held in trust for such payment.

The District may pay and discharge any or all of the Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or noncallable direct obligations of the United States of America or other noncallable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount that will, together with the interest to accrue thereon and available monies then on deposit in the Debt Service Fund, be fully sufficient in the opinion of a certified public accountant licensed to practice in the State to pay and discharge the indebtedness on such Bonds (including all principal, interest, and redemption premiums) at or before their respective maturity dates.

PLAN OF FINANCE

Estimated Sources and Uses of Funds

The estimated sources and uses of funds with respect to the Bonds are as follows:

Sources:	Principal Amount	\$
	Net Original Issue Premium	
	Total Sources:	\$
Uses:	Building Fund	\$
	Debt Service Fund	
	Costs of Issuance ⁽¹⁾	
	Total Uses:	\$

(1) Includes the fees of the municipal advisor, Underwriter's discount, costs of printing, Paying Agent fees, legal fees, rating agency fees, and miscellaneous other costs of issuance.

Application and Investment of Bond Proceeds

The Bonds are being issued by the District to (i) finance the repair, upgrading, acquisition, construction and equipping of certain District property and facilities, including prepayment of all or a portion of an existing lease that refunded prior certificates of participation issued to finance the installation of solar panels throughout the District and construct school buildings at Ramblewood Elementary School (see "Franklin-McKinley School District – District Debt Structure – Refunding Lease"), consistent with the school facilities projects set forth in the ballot measure approved by the District's voters at an election held on March 3, 2020 (see "The Bonds – Authority for Issuance"), and (ii) pay the costs of issuance of the Bonds.

Building Fund. The net proceeds of the sale of the Bonds will be deposited into the fund held by the County and designated as the "Franklin-McKinley School District Election of 2020 General Obligation Bonds, Building Fund" (the "Building Fund") and will be applied only for the purposes approved by the voters of the District pursuant to the 2020 Authorization. Any interest earnings on moneys held in the Building Fund will be retained therein. The County will have no responsibility for assuring the proper use of the proceeds of the Bonds.

Debt Service Fund. Any premium or accrued interest received by the District from the sale of the Bonds will be kept separate and apart in the fund designated as the "Franklin-McKinley School District Election of 2020 General Obligation Bonds, Debt Service Fund" (the "Debt Service Fund"), which fund is held by the County for the payment of principal of and interest on the Bonds, and for no other purpose. Any interest earnings on moneys held in the Debt Service Fund will be retained therein. Any excess proceeds of the Bonds not needed for authorized purposes for which the Bonds are being issued will be transferred to

the Debt Service Fund and applied to the payment of the principal of and interest on the Bonds. Pursuant to the Paying Agent Agreement, the District has pledged monies on deposit in the Debt Service Fund to the payment of the Bonds. If, after payment in full of the Bonds, there remain excess proceeds, any such excess amounts will be transferred to the general fund of the District.

Investment of Proceeds. Moneys in the Building Fund and the Debt Service Funds are expected to be invested through the County pooled investment fund. See “Appendix E – Santa Clara County Investment Pool” attached hereto.

TAX BASE FOR REPAYMENT OF BONDS

The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Bonds are payable solely from ad valorem property taxes levied and collected by the County on taxable property in the District, which taxes are unlimited as to rate or amount. The District’s general fund is not a source for the repayment of the Bonds.

Ad Valorem Property Taxation

District property taxes are assessed and collected by the County at the same time and on the same tax rolls as County, city and special district property taxes. Assessed valuations are the same for both District and County taxing purposes.

Taxes are levied for each fiscal year on taxable real and personal property which is located in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property is assessed on the “unsecured roll.” Unsecured property comprises all property not attached to land, such as personal property or business property. Boats and airplanes are examples of unsecured property. A supplemental roll is developed when property changes hands or new construction is completed. The County levies and collects all property taxes for property falling within the County’s taxing boundaries.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes on the secured roll are payable in two installments, due November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent installment, plus any additional amount determined by the tax-collecting authority of the County. After the second installment of taxes on the secured roll is delinquent, the tax-collecting authority of the County will collect a cost of \$10 for preparing the delinquent tax records and giving notice of the delinquency. Property on the secured roll with delinquent taxes is declared tax-defaulted on July 1 of the calendar year. Such property may thereafter be redeemed, until the right of redemption is terminated, by payment of the delinquent taxes and the delinquency penalty, plus a \$15 redemption fee and a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the tax-collecting authority of the County.

Property taxes on the unsecured roll as of July 31 become delinquent if they are not paid by August 31 and are thereafter subject to a delinquent penalty of 10%. Taxes added to the unsecured tax roll after July 31, if unpaid, are delinquent and subject to a penalty of 10% on the last day of the month succeeding the month of enrollment. In the case of unsecured property taxes, an additional penalty of 1.5% per month begins to accrue when such taxes remain unpaid on the last day of the second month after the 10% penalty attaches. The taxing authority has four ways of collecting unsecured personal property taxes:

(1) a civil action against the assessee; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the assessee; (3) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on specified property of the assessee; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. See also “ – Tax Levies, Collections and Delinquencies” herein.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property, such as churches, colleges, non-profit hospitals, and charitable institutions.

Assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) is allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and K-14 school districts (as defined herein) share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

Assessed Valuations

Property within the District has a total assessed valuation for fiscal year 2019-20 of \$10,558,914,204. The following table shows a 10-year history of assessed valuations in the District.

**ASSESSED VALUATION
Fiscal Year 2010-11 through Fiscal Year 2019-20
Franklin-McKinley School District**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2010-11	\$6,242,637,327	\$8,073,888	\$313,306,019	\$6,564,017,234
2011-12	6,267,517,543	9,191,778	288,834,267	6,565,543,588
2012-13	6,323,372,951	8,392,152	279,747,329	6,611,512,432
2013-14	6,830,924,389	8,392,026	289,703,064	7,129,019,479
2014-15	7,441,412,813	10,686,705	286,995,008	7,739,094,526
2015-16	7,832,150,573	9,882,446	305,359,823	8,147,392,842
2016-17	8,356,971,066	7,289,244	338,672,147	8,702,932,457
2017-18	8,858,313,780	7,175,493	405,614,227	9,271,103,500
2018-19	9,506,307,689	7,273,081	415,070,052	9,928,650,822
2019-20	10,117,250,564	7,273,081	434,390,559	10,558,914,204

Source: California Municipal Statistics, Inc.

Economic and other factors beyond the District’s control, such as a general market decline in real property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, drought, flood, fire or toxic contamination, could cause a reduction in the assessed value of taxable property within the District. Any such reduction would result in a corresponding increase in the annual tax rates levied by the County to pay the debt service with respect to the Bonds. See “The Bonds – Security and Sources of Payment” herein.

The COVID-19 global pandemic may have a negative impact on assessed value of property located within the District's boundaries. During the current economic recession, as a result of the COVID-19 health emergency or for other reasons, a general significant decline in property values in the District could occur. See "Disclosures Relating to COVID-19." The District cannot predict and makes no representations regarding the effects of any economic or other factors beyond its control, including the COVID-19 pandemic, on the value of taxable property within the District, or the extent of the effects of said factors may have on economic activity within the District, the County, or the State.

Appeals and Adjustments of Assessed Valuations

Under State law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution.

Whether resulting from taxpayer appeals or county assessor reductions, adjustments to assessed value are subject to yearly reappraisals by the county assessor and may be adjusted back to their original values when real estate market conditions improve. Once property has regained its prior assessed value, adjusted for inflation, it once again is subject to the annual inflationary growth rate factor allowed under Article XIII A. See also "Constitutional and Statutory Provisions Affecting District Revenues and Appropriations – Article XIII A of the California Constitution" herein.

The District does not have information regarding pending appeals of assessed valuation of property within the District. No assurance can be given that property tax appeals currently pending or in the future will not significantly reduce the assessed valuation of property within the District.

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Assessed Valuation of Single Family Homes

The following table shows a per-parcel analysis of single family residences within the District, in terms of their fiscal year 2019-20 assessed valuation.

PER PARCEL ASSESSED VALUATION OF SINGLE FAMILY HOMES Fiscal Year 2019-20 Franklin-McKinley School District

	No. of Parcels	2019-20 Assessed Valuation		Average Assessed Valuation	Median Assessed Valuation	
Single Family Residential	9,772	\$4,284,746,547		\$438,472	\$407,603	
2019-20 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	136	1.392%	1.392%	\$6,037,169	0.141%	0.141%
\$50,000 - \$99,999	612	6.263	7.655	40,568,295	0.947	1.088
\$100,000 - \$149,999	389	3.981	11.635	49,470,758	1.155	2.242
\$150,000 - \$199,999	498	5.096	16.731	87,353,760	2.039	4.281
\$200,000 - \$249,999	628	6.427	23.158	141,733,284	3.308	7.589
\$250,000 - \$299,999	842	8.616	31.774	232,109,887	5.417	13.006
\$300,000 - \$349,999	857	8.770	40.544	277,945,439	6.487	19.493
\$350,000 - \$399,999	811	8.299	48.844	303,955,592	7.094	26.587
\$400,000 - \$449,999	690	7.061	55.905	292,346,294	6.823	33.410
\$450,000 - \$499,999	692	7.081	62.986	329,064,280	7.680	41.090
\$500,000 - \$549,999	630	6.447	69.433	330,692,209	7.718	48.807
\$550,000 - \$599,999	601	6.150	75.583	345,464,623	8.063	56.870
\$600,000 - \$649,999	498	5.096	80.679	311,404,996	7.268	64.138
\$650,000 - \$699,999	380	3.889	84.568	256,398,547	5.984	70.122
\$700,000 - \$749,999	376	3.848	88.416	271,911,077	6.346	76.468
\$750,000 - \$799,999	303	3.101	91.517	234,347,855	5.469	81.937
\$800,000 - \$849,999	240	2.456	93.973	197,666,541	4.613	86.551
\$850,000 - \$899,999	175	1.791	95.763	152,832,295	3.567	90.117
\$900,000 - \$949,999	142	1.453	97.217	131,122,633	3.060	93.178
\$950,000 - \$999,999	101	1.034	98.250	98,729,251	2.304	95.482
\$1,000,000 – and greater	171	1.750	100.000	193,591,762	4.518	100.000
TOTAL	9,772	100.000%		\$4,284,746,547	100.000%	

⁽¹⁾ Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

Assessed Valuation and Parcels by Land Use

The following table shows a per-parcel analysis of the distribution of taxable property within the District by principal use, and the fiscal year 2019-20 assessed valuation of such parcels.

SECURED ROLL ASSESSED VALUATION AND PARCELS BY LAND USE Fiscal Year 2019-20 Franklin-McKinley School District

Non Residential:	2019-20 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Commercial/Office	\$1,103,396,674	10.91%	515	2.56%
Industrial	1,195,794,735	11.82	605	3.01
Recreational	12,564,070	0.12	5	0.02
Government/Social/Institutional	42,299,336	0.42	499	2.48
Miscellaneous	<u>60,012,895</u>	<u>0.59</u>	<u>85</u>	<u>0.42</u>
Subtotal Non-Residential	\$2,414,067,710	23.86%	1,709	8.50%
Residential:				
Single-Family Residence	\$4,284,746,547	42.35%	9,772	48.58%
Condominium/Townhouse	2,289,256,476	22.63	5,084	25.28
Mobile Home	118,366,260	1.17	2,200	10.94
2-4 Residential Units	291,662,456	2.88	607	3.02
5+ Residential Units/Apartments	<u>587,594,871</u>	<u>5.81</u>	<u>335</u>	<u>1.67</u>
Subtotal Residential	\$7,571,626,610	74.84%	17,998	89.48%
Vacant Parcels	\$131,556,244	1.30%	407	2.02%
Total	\$10,117,250,564	100.00%	20,114	100.00%

⁽¹⁾ Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

Assessed Valuation by Jurisdiction

The following table shows the fiscal year 2018-19 assessed valuation of the District by jurisdiction.

ASSESSED VALUATION BY JURISDICTION Fiscal Year 2018-19 Franklin-McKinley School District

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of San Jose	\$9,875,644,024	99.47%	\$181,926,524,174	5.43%
Unincorporated Santa Clara County	<u>53,006,798</u>	<u>0.53</u>	\$17,968,471,412	0.29%
Total District	\$9,928,650,822	100.00%		
Santa Clara County	\$9,928,650,822	100.00%	\$482,861,280,340	2.06%

Source: California Municipal Statistics, Inc.

Tax Levies, Collections and Delinquencies

The following table shows secured tax levies and delinquencies within the District, and amounts delinquent as of June 30, for fiscal years 2014-15 through 2018-19.

**SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 2014-15 through 2018-19
Franklin-McKinley School District**

<u>Fiscal Year</u>	<u>Secured Tax Charges⁽¹⁾</u>	<u>Amount Delinquent June 30</u>	<u>% Delinquent June 30</u>
2014-15	\$7,399,226.71	\$61,985.98	0.84%
2015-16	6,889,140.19	55,435.96	0.80
2016-17	8,402,252.00	74,825.17	0.89
2017-18	8,169,118.69	51,059.15	0.63
2018-19	8,690,509.33	66,682.99	0.77

(1) Debt service levy only.

Source: California Municipal Statistics, Inc.

Property tax delinquencies may be impacted by economic and other factors beyond the District’s or the County’s control. For example, during the current economic recession, property owners may have an inability or may be unwilling to pay property taxes. The economic recession could be caused by many factors outside the control of the District or the County, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other outbreak of disease or natural or manmade disaster. See “Disclosure Relating to COVID-19.” Furthermore, the District cannot predict the impact, if any, that changes or modifications to property tax collection procedures, including Order N-61-20 (as described below) which waives the collection of certain penalties and interest on delinquent property taxes resulting from the COVID-19 pandemic, might have on the County’s Teeter Plan (as described below). See “Tax Base for Repayment of Bonds – Alternative Method of Tax Apportionment – ‘Teeter Plan’” and “– Waiver of State Laws Relating to Penalties for Non-Payment of Property Taxes” herein.

Alternative Method of Tax Apportionment - “Teeter Plan”

The Board of Supervisors of the County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 et seq. of the State Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the tax-levying or tax collecting agency.

The *ad valorem* property tax to be levied on the secured roll to pay the principal of and interest on the Bonds will be subject to the Teeter Plan, beginning in the first year of such levy. The District will receive 100% of the *ad valorem* property tax levied on the secured roll to pay the principal of and interest on the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

The Teeter Plan is to remain in effect in the County unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County is to order discontinuance of the Teeter Plan subsequent to its

implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency.

Waiver of State Laws Relating to Penalties for Non-Payment of Property Taxes

In an attempt to provide temporary relief to State property taxpayers as a result of the impacts of the COVID-19 outbreak, on May 6, 2021, the Governor signed Executive Order N-61-20 (“Order N-61-20”). Pursuant to Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent such provisions require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. Said penalties, costs and interest shall be cancelled under the conditions provided for in Order N-61-20, including if the property is residential real property occupied by the taxpayer or the real property qualifies as a small business under certain State laws, the taxes were not delinquent prior to March 4, 2020, the taxpayer files a claim for relief with the tax collector, and the taxpayer demonstrates economic hardship or other circumstances that have arisen due to the COVID-19 pandemic or due to a local, State, or federal governmental response to COVID-19. The impacts the waiver of penalties, costs or interest on delinquent property taxes under the circumstances described in Order N-61-20 have on property tax revenues are unknown at this time. As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of secured property tax levies no matter the delinquency rate within the District. See “Tax Base for Repayment of Bonds – Alternative Method of Tax Apportionment – ‘Teeter Plan’” herein.

The property tax collection procedures described above may be subject to amendment by legislation or executive order, including Order N-61-20. The District cannot predict what changes, if any, by legislation or executive order might occur in the future in response to the economic impacts of the COVID-19 outbreak.

Tax Rates

A representative tax rate area (“TRA”) located within the District is TRA 17-031. The table below shows the total *ad valorem* property tax rates, as a percentage of assessed valuation, levied by all taxing entities in this TRA during the five-year period from fiscal years 2015-16 through 2019-20.

TYPICAL TAX RATES PER \$100 OF ASSESSED VALUATION (TRA 17-031)⁽¹⁾
Fiscal Years 2015-16 through 2019-20
Franklin-McKinley School District

	2015-16	2016-17	2017-18	2018-19	2019-20
County General Rate	1.00000	1.00000	1.00000	1.00000	1.00000
County Retirement Levy	.03880	.03880	.03880	.03880	.03880
County Hospital Bonds	.00880	.00860	.00820	.00720	.00690
County Housing Bonds	--	--	.01266	.01050	.01000
Franklin-McKinley School District	.08860	.10130	.09270	.09170	.07710
East Side Union High School District	.08480	.07920	.10340	.10170	.09860
San Jose Community College District	.02470	.02310	.04000	.03830	.01990
City of San Jose	.02230	.02070	.01860	.01700	.02260
Total All Property Tax Rate	1.26800	1.27170	1.31436	1.30520	1.27390
Santa Clara Valley Water District:					
State Water Project	.00570	.00680	.00620	.00420	.00410
Total Land and Improvement Tax Rate	.00570	.00680	.00620	.00420	.00410

(1) The 2019-20 assessed valuation of TRA 17-031 is \$3,378,022,011, which is 31.99% of the District’s total assessed valuation. Source: California Municipal Statistics, Inc.

Principal Taxpayers

The following table lists the 20 largest local secured taxpayers in the District in terms of their fiscal year 2019-20 secured assessed valuations. Each taxpayer listed is a unique name on the tax rolls. The District cannot determine from assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the list of largest taxpayers identified in the following table. A large concentration of ownership in a single individual or entity results in a greater amount of tax collections which are dependent upon that property owner's ability or willingness to pay property taxes.

20 LARGEST LOCAL SECURED TAXPAYERS Fiscal Year 2019-20 Franklin-McKinley School District

	Property Owner	Primary Land Use	2019-20 Assessed Valuation	% of Total ⁽¹⁾
1.	Cole Mt. San Jose CA LP	Shopping Center	\$212,775,184	2.10%
2.	Greenery Rosewalk LLC	Apartments	160,488,053	1.59
3.	GS Tully Road LLC	Apartments	64,605,060	0.64
4.	BPP Pacific Industrial CA	Industrial	62,695,033	0.62
5.	Essex Bella Villagio LP	Apartments	62,122,525	0.61
6.	Vietnam Town Property LLC	Shopping Center	55,277,589	0.55
7.	Asian Square Inc.	Shopping Center	51,999,192	0.51
8.	KB Home South Bay Inc.	Residential Development	51,135,713	0.51
9.	Carlisle Associates Ltd.	Apartments	46,270,605	0.46
10.	Target Corporation	Commercial	39,350,000	0.39
11.	Janice M. Fiore, Trustee	Shopping Center	38,182,137	0.38
12.	San Jose Water Works	Water Company	37,026,501	0.37
13.	Public Storage Inc.	Warehouse	34,742,116	0.34
14.	MHC California Hawaiian LP	Apartments	34,529,747	0.34
15.	Chateau La Salle 2012 LLC	Apartments	29,644,727	0.29
16.	SGC Little Orchard LLC	Industrial	28,039,213	0.28
17.	J. Charles Carlson, Trustee	Shopping Center	27,874,150	0.28
18.	D & D Ranch	Industrial	27,845,311	0.28
19.	Senter Road, LLC	Industrial	25,862,115	0.26
20.	Price Company	Shopping Center	<u>25,682,990</u>	<u>0.25</u>
			<u>\$1,116,147,961</u>	<u>11.03%</u>

⁽¹⁾ 2019-20 Local Secured Assessed Valuation: \$10,117,250,564.

Source: *California Municipal Statistics, Inc.*

Statement of Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc., dated as of May 27, 2020. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The table also shows the corresponding portion of the overlapping entity's existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not given in the table.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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**STATEMENT OF DIRECT AND OVERLAPPING DEBT
Franklin-McKinley School District**

2019-20 Assessed Valuation: \$10,558,914,204

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/1/20</u>
Santa Clara County	2.048%	\$18,052,198
San Jose-Evergreen Community College District	6.502	28,103,981
East Side Union High School District	12.136	105,984,725
Franklin-McKinley School District	100.	138,154,978⁽¹⁾
City of San Jose	5.384	25,249,883
Santa Clara Valley Water District Benefit Assessment District	2.048	1,341,338
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$316,887,103

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	2.048%	\$19,192,629
Santa Clara County Pension Obligation Bonds	2.048	7,106,491
Santa Clara County Board of Education Certificates of Participation	2.048	71,270
San Jose-Evergreen Community College District Pension Obligations	6.502	3,085,199
East Side Union High School District Pension Obligation Bonds	12.136	3,334,366
Franklin-McKinley School District Certificates of Participation	100.	3,010,000
City of San Jose General Fund Obligations	5.384	21,954,875
Santa Clara County Vector Control District Certificates of Participation	2.048	41,165
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$57,795,995
Less: Santa Clara County supported obligations		<u>6,258,225</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$51,537,770

OVERLAPPING TAX INCREMENT DEBT (Successor Agency): \$37,777,056

GROSS COMBINED TOTAL DEBT: \$412,460,154⁽²⁾
NET COMBINED TOTAL DEBT: \$406,201,929

⁽¹⁾ Excludes issue to be sold.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

<u>Ratios to 2019-20 Assessed Valuation:</u>	
Direct Debt (\$138,154,978)	1.31%
Total Direct and Overlapping Tax and Assessment Debt	3.00%
Combined Direct Debt (\$141,164,978).....	1.34%
Gross Combined Total Debt.....	3.91%
Net Combined Total Debt	3.85%

<u>Ratios to 2019-20 Redevelopment Incremental Valuation (\$713,673,992):</u>	
Total Overlapping Tax Increment Debt	5.29%

Source: California Municipal Statistics, Inc.

DISCLOSURE RELATING TO COVID-19

Background

An outbreak of a respiratory disease caused by a new strain of coronavirus, COVID-19, was first detected in China in late 2019 and has subsequently spread to other countries. The World Health Organization declared the COVID-19 outbreak as a Public Health Emergency of International Concern on January 30, 2020, further characterizing the outbreak as a pandemic on March 11, 2020. On March 4, 2020, the Governor declared a State of Emergency, and on March 13, 2020, the President declared a national emergency concerning the COVID-19 outbreak. This world-wide public health crisis has led to volatility and uncertainty in the financial markets and economies of the United States and other countries around the world, resulting in a global recession.

Federal Action

On March 6, 2020, President Trump signed a COVID-19 relief bill providing \$8.3 billion in emergency funding to support development of vaccines and treatment, grants for state and local governments, preparedness activities for U.S. government facilities, and humanitarian foreign assistance. Upon the President's declaration of a national emergency, more than \$50 billion in federal funds was made available for disaster relief and assistance. The Families First Coronavirus Response Act of 2020 was signed into law on March 18, 2020, providing paid sick leave, free testing, expanded food assistance and unemployment benefits, and requiring additional protections for healthcare workers. Additionally, the Federal Reserve took action to steady the financial markets by lowering its benchmark interest rate to nearly zero, introducing a large bond-buying program, and establishing emergency lending programs to banks and money market mutual funds.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") into law authorizing more than \$2 trillion to battle COVID-19 and its economic impacts, including direct cash payments to individual citizens, expanded unemployment insurance for workers, loan programs for small business (including \$349 billion for the Paycheck Protection Program), additional funds for state and local governments, support for hospitals and healthcare systems, and various types of economic relief for impacted businesses and industries. The CARES Act designates approximately \$31 billion for K-12 and higher education assistance and more than \$4 billion for childcare and early education programs, including \$13.5 billion to be distributed to states based on their state-level Title I allocation, with states passing on ninety percent of the funds to school districts and charter schools using the Title I formula; \$3 billion for state governors to spend on K-12 or higher education in regions that have been hit hardest by COVID-19, \$8.8 billion for child nutrition programs, \$3.5 billion for child care and development block grants and \$750 million for Head Start early education programs.

On April 9, 2020, the Federal Reserve took additional actions to provide up to \$2.3 trillion in loans to support the economy. Such actions include supplying liquidity to participating financial institutions through term financing backed by Paycheck Protection Program loans, purchasing up to \$600 billion in loans through the Main Street Lending Program, and establishing a Municipal Liquidity Facility that will offer up to \$500 billion in lending to states and municipalities to help manage cash flow stresses caused by the COVID-19 pandemic.

On April 24, 2020, a new \$484 billion federal aid package was signed, including adding \$310 billion for the Paycheck Protection Program and \$60 billion for Small Business Administration disaster assistance loans and grants. This new relief package also directs \$75 billion to hospitals and \$25 billion to a new COVID-19 testing program.

State and Local Action

The Governor's declaration of a state of emergency made additional resources available, formalized emergency actions already underway across multiple State agencies and departments, and assisted the State in preparing for and slowing the spread of COVID-19. The Governor issued Executive Order N-26-20 on March 13, 2020, qualifying closure of schools to address COVID-19 as a condition preventing maintenance of schools wherein school districts would continue to receive State funding, and encouraging the implementation of distance learning strategies. The order directed school districts to use those State dollars to fund distance learning and high quality educational opportunities, provide school meals, continue to pay employees, and, as practicable, arrange for the supervision for students during school hours.

On March 17, 2020, the Governor signed Senate Bill 89 ("SB 89") appropriating \$500 million from the State general fund for any purpose related to the Governor's March 4 emergency declaration. SB 89 allows additional funds to be appropriated in \$50 million increments up to a total of not to exceed \$1 billion. The Governor also signed Senate Bill 117 ("SB 117") to, in part, address economic impacts to school districts directly. SB 117 provides that for all school districts that comply with Executive Order N-26-20, attendance during full school months from July 1, 2019, to February 29, 2020, inclusive, will be reported for apportionment purposes. SB 117 also holds harmless school districts not meeting minimum instructional day and minute requirements during the academic year. Additionally, SB 117 appropriates \$100 million for local educational agencies to purchase protective equipment and supplies and labor related to cleaning school sites as a result of COVID-19, to be allocated to local education agencies on the basis of average daily attendance ("ADA").

On March 18, 2020, the California Franchise Tax Board announced updated special tax relief for all State taxpayers due to the COVID-19 outbreak, postponing from April 15, 2020 until July 15, 2020 the filing and payment deadlines for all individuals and business entities for, among other items, 2019 tax returns and tax return payments.

On March 19, 2020, the Governor issued Executive Order N-33-20 ordering all State residents to stay home except for certain necessities and other essential purposes such as to providing food for a relative, obtaining necessary healthcare, and to go to an essential job. The blanket shelter-in-place order went into effect immediately, thereby suspending in-person instruction indefinitely to all State schools.

On April 14, 2020, the State presented its Pandemic Resilience Roadmap, a four-stage plan for modifying Executive Order N-33-20 regarding shelter-in-place guidelines, and defining the statewide status under the plan as being at Stage 1. On May 7, 2020, the State's Public Health Officer released an order supporting the gradual movement of the State from Stage 1 to Stage 2 of the Pandemic Resilience Roadmap. This order allows for the return of certain kinds of retail, manufacturing and other "low risk" businesses if physical distancing measures are implemented, and identifies criteria and procedures for reducing restrictions by local officers that might be less restrictive than statewide measures.

On June 25, 2020, the Governor issued a proclamation of a budget emergency to make additional resources available to fund the State's ongoing emergency response to the COVID-19 pandemic. The Governor's action ensures the availability of funding for personal protective equipment, medical equipment, and other expenditures necessary to support a potential hospital surge and provide necessary services to vulnerable populations. This proclamation allows for the Legislature to pass legislation allowing the State to draw from the Budget Stabilization Account to help the State respond to the threat and spread of COVID-19. See "Constitutional and Statutory Provisions Affecting District Revenues and Appropriations – Proposition 2" herein.

Local jurisdictions within the State also issued their own shelter-in-place orders to slow the spread of COVID-19. Following earlier orders cancelling mass gatherings, the County’s shelter-in-place order was originally issued on March 16, 2020. The shelter-in-place order was subsequently amended and extended indefinitely on March 31, 2020, April 29, 2020, and on May 18, 2020. The new order, to remain in effect until it is terminated or modified by the County Health Officer, as a result of the progress the County has achieved in slowing the spread of COVID-19, allows certain additional businesses and activities to resume, subject to restrictions to reduce transmission. Said additional businesses and activities include, retail businesses with curbside pickup and car parades. Additionally, the new order updates the County’s social distancing protocol applicable to businesses in order to incorporate new requirements from the State for training personnel and other measures.

Additional information with respect to events surrounding the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to the Governor’s office (<http://www.gov.ca.gov>), the California Department of Public Health (<http://covid19.ca.gov/>) and the County (<https://www.sccgov.org/sites/covid19/Pages/home.aspx>). *The District has not incorporated by reference the information on such websites and the District does not assume any responsibility for the accuracy of the information on such website.*

Impacts on the Economy; Potential Declines in State and Local Revenues

The COVID-19 public health crisis has and will likely continue to have negative impacts on global and local economies, including the economies of the State and in the region of the District. The extent and duration of this public health crisis caused by COVID-19 is currently unknown, including the impacts on the economy.

The State’s revenue sources are anticipated to be materially adversely impacted by the COVID-19 pandemic, including expected reductions in personal income tax receipts and capital gains tax receipts. Further, the severe drop in economic activity, due in part to the shelter-in-place orders, has resulted in a recession, and will affect California’s short-term financial condition. On June 22, 2020, legislative leaders and Governor Newsom announced an agreement concerning the 2020-21 State budget. The budget agreement maintains LCFE funding at its 2019-20 levels, but \$8.6 billion in LCFE funding will be deferred until 2021-22. If federal funds are made available, some deferrals will be avoided. See “Tax Base for Repayment of Bonds – Waiver of State Law Relating to Penalties for Non-Payment of Property Taxes,” “District Financial Information – State Budget Measures – 2020-21 Proposed State Budget,” “– May Revision to the 2020-21 Proposed State Budget,” and “– 2020-21 State Budget Bill” herein.

Impact on the Bonds

Notwithstanding the adverse impacts that the COVID-19 outbreak may have on the financial condition of the State, the County, and the District, the Bonds described herein are voter-approved general obligations of the District payable solely from the levy and collection of *ad valorem* property taxes, unlimited as to rate or amount, and are *not* payable from the general fund of the District. In addition, the District cannot predict the impact that the COVID-19 health crisis may have on local property values or the ability of the County to collect taxes, including the possibility of an increase in delinquencies. See “The Bonds – Security and Sources of Payment” and “Tax Base for Repayment of Bonds” herein.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the County on taxable property within the District in an amount sufficient for the payment thereof. See “The Bonds – Security and Sources of Payment” herein. Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 98 and 111, and certain other provisions of law discussed below are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the County to levy taxes on behalf of the District and to the District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Bonds.

Article XIII A of the California Constitution

Article XIII A (“Article XIII A”) of the State Constitution limits the amount of *ad valorem* property taxes on real property to 1% of “full cash value” as determined by the county assessor. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. Determined in this manner, the full cash value is also referred to as the “base year value.” The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the adjusted base year value described above. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value, adjusted for inflation. Reductions in assessed value could result in a corresponding increase in the annual tax rates levied by the County to pay debt service on the Bonds. See “The Bonds – Security and Sources of Payment” and “Tax Base for Repayment of Bonds” herein.

Article XIII A requires a vote of two-thirds or more of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b) as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. The tax for payment of the Bonds falls within the exception described in (c) of the immediately preceding sentence. In addition, Article XIII A requires the approval of two-thirds or more of all members of the legislature of the State (the “State Legislature”) to change any State taxes for the purpose of increasing tax revenues.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the relevant county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction or change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Both the United States Supreme Court and the State Supreme Court have upheld the general validity of Article XIII A.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions. Under the State Constitution, such property is assessed by the State Board of Equalization as part of a “going concern” rather than as individual pieces of real or personal property. Such State-assessed property is allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

The State electric utility industry has experienced significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. So long as the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State’s school financing formula. See “District Financial Information – State Funding of Education” herein.

Article XIII B of the California Constitution

Article XIII B (“Article XIII B”) of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines:

(a) “change in the cost of living” with respect to school districts to mean the percentage change in State per capita income from the preceding year, and

(b) “change in population” with respect to a school district to mean the percentage change in the ADA of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service such as the Bonds, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the State Legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See “Propositions 98 and 111” herein.

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the State Constitution Articles XIII C and XIII D (respectively, “Article XIII C” and “Article XIII D”), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the State Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the State Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the State Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

Propositions 98 and 111

On November 8, 1988, voters of the State approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changed State funding of public education below the university level and the operation of the State’s appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as “K-14 school districts”) at a level equal to the greater of (a) the same percentage of the State general fund revenues as the percentage appropriated to such districts in the 1986-87 fiscal year, and (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the State Legislature to suspend this formula for a one-year period.

The Accountability Act also changed how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount are, instead of being returned to taxpayers, is transferred to K-14 school districts. Any such transfer to K-14 school districts is excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year is automatically increased by the amount of such transfer. These additional moneys enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other

portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which can be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the State Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the State budget.

On June 5, 1990, the voters of the State approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limitation Act of 1990" ("Proposition 111") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

The most significant provisions of Proposition 111 are summarized as follows:

a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in State per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the minimum funding level for such districts. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into K-14 school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the State Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the State Legislature and the Governor, which was expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues ("Test 1") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment ("Test 2").

Under Proposition 111, schools will receive the greater of (1) Test 1, (2) Test 2, or (3) a third test (“Test 3”), which will replace Test 2 in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in the State per capita personal income. Under Test 3, K-14 school districts will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 39

On November 7, 2000, State voters approved an amendment (commonly known as Proposition 39) to the State Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the State Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-14 school districts, including the District, community college districts, and county offices of education. As noted above, the State Constitution previously limited property taxes to 1% of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 placed certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate projected to be levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district, such as the District), or \$25 (for a community college district) per \$100,000 of taxable property value, when assessed valuation is projected to increase in accordance with Article XIII A of the State Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the State Legislature and approval by the Governor. See “- Article XIII A of the California Constitution” herein.

Proposition 1A and Proposition 22

On November 2, 2004, State voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease vehicle license fee revenues without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply

with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was projected to be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, was expected to be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

Jarvis vs. Connell

On May 29, 2002, the State Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the State Constitution or a federal mandate is necessary for the State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the District if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the State Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 30 and Proposition 55

On November 6, 2012, State voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increased the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,001 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

The California Children’s Education and Health Care Protection Act of 2016, also known as Proposition 55, is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Proposition 55 did not extend the sales tax rate increase enacted under Proposition 30.

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See “Propositions 98 and 111” herein. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). Pursuant to Proposition 30, funds in the EPA are allocated quarterly, with 89% of such funds provided to school districts and 11% provided to community college districts. The funds are being distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

Proposition 2

On November 4, 2014, voters approved the Rainy Day Budget Stabilization Fund Act (also known as “Proposition 2”). Proposition 2 is a legislatively-referred constitutional amendment which makes certain changes to State budgeting practices, including substantially revising the conditions under which transfers are made to and from the State’s Budget Stabilization Account (the “BSA”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58).

Under Proposition 2, and beginning in fiscal year 2015-16 and each fiscal year thereafter, the State will generally be required to annually transfer to the BSA an amount equal to 1.5% of estimated State general fund revenues (the “Annual BSA Transfer”). Supplemental transfers to the BSA (a “Supplemental BSA Transfer”) are also required in any fiscal year in which the estimated State general fund revenues that are allocable to capital gains taxes exceed 8% of the total estimated general fund tax revenues. Such excess capital gains taxes—net of any portion thereof owed to K-14 school districts pursuant to Proposition 98—will be transferred to the BSA. Proposition 2 also increases the maximum size of the BSA to an amount equal to 10% of estimated State general fund revenues for any given fiscal year. In any fiscal year in which a required transfer to the BSA would result in an amount in excess of the 10% threshold, Proposition 2 requires such excess to be expended on State infrastructure, including deferred maintenance.

For the first 15-year period ending with the 2029-30 fiscal year, Proposition 2 provides that half of any required transfer to the BSA, either annual or supplemental, must be appropriated to reduce certain State liabilities, including making certain payments owed to K-14 school districts, repaying State interfund borrowing, reimbursing local governments for State mandated services, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. Following the initial 15-year period, the Governor and the State Legislature are given discretion to apply up to half of any required transfer to the BSA to the reduction of such State liabilities. Any amount not applied towards such reduction must be transferred to the BSA or applied to infrastructure, as described above.

Proposition 2 changes the conditions under which the Governor and the State Legislature may draw upon or reduce transfers to the BSA. The Governor does not retain unilateral discretion to suspend transfers

to the BSA, nor does the State Legislature retain discretion to transfer funds from the BSA for any reason, as previously provided by law. Rather, the Governor must declare a “budget emergency,” defined as an emergency within the meaning of Article XIII B of the State Constitution or a determination that estimated resources are inadequate to fund State general fund expenditures, for the current or ensuing fiscal year, at a level equal to the highest level of State spending within the three immediately preceding fiscal years. Any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the BSA are limited to the amount necessary to address the budget emergency, and no draw in any fiscal year may exceed 50% of the funds on deposit in the BSA unless a budget emergency was declared in the preceding fiscal years.

Proposition 2 also requires the creation of the Public School System Stabilization Account (the “PSSSA”) into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would otherwise be paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is “Test 1,” (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be made is higher than the immediately preceding fiscal year, as adjusted for ADA growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year’s funding level, as adjusted for ADA growth and cost of living.

Kindergarten Through Community College Public Education Facilities Bond Act of 2016

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as “Proposition 51”) is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds for the new construction and modernization of K-14 facilities. The District makes no guarantee that it will either pursue or qualify for Proposition 51 state facilities funding.

K-12 School Facilities. Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school district lacks sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the modernization and new construction of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, state grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

The table below shows the expected use of bond funds under Proposition 51:

**PROPOSITION 51
Use of Bond Funds
(In Millions)**

K-12 Public School Facilities	
New construction	\$3,000
Modernization	3,000
Career technical education facilities	500
Charter school facilities	<u>500</u>
Subtotal	\$7,000
Community College Facilities	<u>\$2,000</u>
Total	<u>\$9,000</u>

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the State Constitution and Propositions 2, 22, 26, 30, 39, 51, 55, and 98 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

DISTRICT FINANCIAL INFORMATION

The information in this section concerning the District’s general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the County in the District in an amount sufficient for the payment thereof. See “The Bonds – Security and Sources of Payment” herein.

State Funding of Education

School district revenues consist primarily of guaranteed State moneys, local property taxes and funds received from the State in the form of categorical aid under ongoing programs of local assistance. All State aid is subject to the appropriation of funds in the State’s annual budget.

Local Control Funding Formula. State Assembly Bill 97 (Stats. 2013, Chapter 47) (“AB 97”), enacted as part of the fiscal year 2013-14 State budget, established a new system for funding school districts, charter schools and county offices of education. Certain provisions of AB 97 were amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49) (“SB 91”).

The primary component of AB 97, as amended by SB 91, was the implementation of the Local Control Funding Formula (“LCFF”), which replaced the revenue limit funding system for determining State apportionments, as well as the majority of State categorical program funding. State allocations are provided on the basis of target base funding grants per unit of ADA (a “Base Grant”) assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. The 2018-19 State Budget provided funding for the LCFF that fully implemented the school district and charter school formula two years earlier than originally scheduled. See “State Budget Measures” herein. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF.

The 2019-20 Adjusted Base Grant per ADA is as follows: (i) \$8,503 for grades K-3; (ii) \$7,818 for grades 4-6; (iii) \$8,050 for grades 7-8; and (iv) \$9,572 for grades 9-12. Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs are subject to appropriation for such adjustment in the annual State budget. See “State Budget Measures” herein. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this class size reduction goal in proportion to the growth in their funding over the implementation period. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

School districts that serve students of limited English proficiency (“EL” students), students from low income families who are eligible for free or reduced priced meals (“LI” students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI (foster youth automatically meet the eligibility requirements for free or reduced priced meals, and are therefore not discussed separately herein). A supplemental grant add-on (each, a “Supplemental Grant”) is authorized for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such district’s percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a “Concentration Grant”) equal to 50% of the applicable Base Grant multiplied by the percentage of such district’s unduplicated EL/LI student enrollment in excess of the 55% threshold.

The following table shows a breakdown of the District’s ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for 2015-16 through 2018-19 and a projected amounts for fiscal years 2019-20 and 2020-21.

ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2015-16 through 2018-19, and Projected for Fiscal Years 2019-20 and 2020-21
Franklin-McKinley School District

Fiscal Year	Average Daily Attendance ⁽¹⁾				Total District Enrollment ⁽²⁾	% of EL/LI Enrollment
	(By Grade Span)					
	K-3	4-6	7-8	Total District		
2015-16	3,656	2,742	1,888	8,286	8,575	86.41%
2016-17	3,325	2,638	1,793	7,756	8,028	83.74
2017-18	3,123	2,523	1,734	7,380	7,637	81.42
2018-19	2,924	2,477	1,613	7,014	7,301	82.35
2019-20 ⁽³⁾	2,794	2,326	1,491	6,611	6,861	81.31
2020-21 ⁽³⁾	2,682	2,239	1,464	6,385	6,649	81.63

⁽¹⁾ Reflects P-2 ADA.

⁽²⁾ Reflects certified enrollment as of the fall census day (the first Wednesday in October), which is reported to the California Longitudinal Pupil Achievement Data System (“CALPADS”) in each school year and is used to calculate each school district’s unduplicated EL/LI student enrollment. Adjustments may be made to the certified EL/LI counts by the State Department of Education. For purposes of calculating Supplemental and Concentration Grants, beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI students is based on a rolling average of such district’s EL/LI enrollment for the current fiscal year and the two immediately preceding fiscal years. Includes the enrollment of the dependent charter school located within the boundaries of the District.

⁽³⁾ Projected.

Source: Franklin-McKinley School District

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target (“ERT”) add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a 1.94% COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the LCFF implementation period. The District does not qualify for the ERT add-on.

The sum of a school district’s adjusted Base, Supplemental and Concentration Grants will be multiplied by such district’s P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will yield a district’s total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district’s share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, anticipated decreases in State revenues as a result of the COVID-19 pandemic may significantly affect appropriations made by the State Legislature to school districts, including the District. See “Disclosures Relating to COVID-19.”

Certain school districts, known as “basic aid” districts, have allocable local property tax collections that equal or exceed such districts’ total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the “basic aid” requirement of \$120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District does not currently qualify as a basic aid district.

Accountability. Regulations adopted by the State Board of Education require that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, and detail the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt local control and accountability plans (“LCAPs”) disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The State Board of Education has developed and adopted a template LCAP for use by school districts.

Support and Intervention. AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts in meeting the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district’s LCAP (or annual update thereto), and the school district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district’s LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district’s budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its applicable county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a school district’s strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district with identifying and implementing programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts with achieving the goals set forth in their LCAPs. The State Board of Education has developed rubrics to assess school district performance and the need for support and intervention.

The State Superintendent of Public Instruction (the “State Superintendent”) is further authorized, with the approval of the State Board of Education, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized to (i) modify a district’s LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

Other State Sources. In addition to State allocations determined pursuant to the LCFF, the District receives other State revenues consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a

majority of State mandated programs were eliminated, and funding for these programs was folded into the LCFF. Categorical funding for certain programs was excluded from the LCFF, and school districts will continue to receive restricted State revenues to fund these programs.

Other Revenue Sources

Federal and Local Sources. The federal government provides funding for several of the District’s programs, including special education programs, programs under the Every Student Succeeds Act, and specialized programs such as Drug Free Schools, Innovative Strategies, and Vocational & Applied Technology. In addition, school districts may receive additional local revenues beyond local property tax collections, such as interest earnings, interagency services, Parcel Taxes (as described herein), Developer Fees (as described herein), and other local sources.

Parcel Tax. On November 4, 2008, the voters of the District authorized the District to levy a nine-year special tax of \$72 per parcel (the “Parcel Tax”), through June 30, 2017. On November 8, 2016, the voters of the District authorized a renewal of the Parcel Tax commencing on July 1, 2018 for an additional nine years. The Parcel Tax, a “special tax” under the State Constitution, required the approval of two-thirds of the voters voting on the measure. The Parcel Tax is levied uniformly on all taxable property in the District, provided, the Parcel Tax provides for a contiguous parcel exemption that allows a property owner to combine adjacent parcels (parcels that share a common border) that have the same primary purpose (i.e., a residence, a business, vacant land, etc.) into one taxable unit. The Parcel Tax also provides an exemption for property owners who are 65 years and older. The purpose of the Parcel Tax is to retain and attract qualified teachers, to maintain and expand reading, counseling and tutoring programs for at-risk students, to maintain small class sizes in kindergarten through third grade and to improve math, science and literacy instruction. The Parcel Tax produced revenues in the amount of \$1,211,404 in fiscal year 2018-19 and is projected to produce revenues in the amount of \$1,226,657 in each of fiscal years 2019-20 and 2020-21.

Developer Fees. The District maintains the Capital Facility Fund, separate and apart from its general fund, for the collection of developer fees on residential and commercial development pursuant to State Government Code Section 65995 (the “Developer Fees”). The following table lists the Developer Fees collected for fiscal years 2013-14 through 2018-19, and a projected amount for fiscal years 2019-20 and 2020-21.

DEVELOPER FEE COLLECTIONS
Fiscal Years 2013-14 through 2018-19, and Projected for Fiscal Years 2019-20 and 2020-21
Franklin-McKinley School District

Fiscal Year	Developer Fee Collections
2013-14	\$536,826
2014-15	544,512
2015-16	885,104
2016-17	1,456,279
2017-18	324,805
2018-19	1,449,659
2019-20 ⁽¹⁾	800,000
2020-21 ⁽¹⁾	300,000

⁽¹⁾ Projected.

Source: Franklin-McKinley School District

The District, however, can make no representations that the Developer Fees will continue to be received by the District in amounts consistent with prior years, or as currently projected. The Bonds,

however, are not payable from such revenue. The Bonds will be payable solely from the proceeds of an *ad valorem* property tax which is required to be levied by the County in an amount sufficient for the payment thereof. See “The Bonds – Security and Sources of Payment” herein.

Budget Process

State Budgeting Requirements. The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 (“AB 1200”), which became State law on October 14, 1991. Portions of AB 1200 are summarized below. Additional amendments to the budget process were made by Assembly Bill 2585, effective as of September 9, 2014, including the elimination of the dual budget cycle option for school districts. All school districts must now be on a single budget cycle.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations, if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, whether the budget includes the expenditures necessary to implement a LCAP, and whether the budget’s ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before September 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by September 15 of the county superintendent’s recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent’s recommendations. The committee must report its findings no later than September 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than October 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

A school district whose budget has been disapproved must revise and readopt its budget by October 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent’s recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final school district budgets and not later than November 8, must approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. No later than November 8, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved. Until a school district’s budget is approved, the school district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

Interim Financial Reporting. Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial

obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or the two subsequent fiscal years.

The District filed self-qualified Interim Financial Reports pursuant to AB 1200 for the following reporting periods: the 2nd Interim Financial Report for fiscal year 2007-08, the 2nd Interim Financial Report for fiscal year 2008-09, the 1st Interim Financial Report for fiscal year 2009-10, the 1st and 2nd Interim Financial Reports for fiscal year 2010-11, the 1st and 2nd Interim Financial Reports for fiscal year 2012-13, and the 1st Interim Financial Report for fiscal year 2018-19. The County Superintendent of Schools made a negative determination with respect to the District's self-qualified certification of its 2nd Interim Financial Report in fiscal year 2009-10. For all other reporting periods, the District has reported a positive certification.

Budgeting Trends. The table on the following page summarizes the District's adopted general fund budgets for fiscal years 2016-17 through 2020-21, audited ending results for fiscal years 2016-17 through 2018-19, and estimated actuals for fiscal year 2019-20.

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GENERAL FUND BUDGETING⁽¹⁾
Fiscal Years 2016-2017 through 2020-2021
Franklin-McKinley School District

	Fiscal Year 2016-17		Fiscal Year 2017-18		Fiscal Year 2018-19		Fiscal Year 2019-20		Fiscal Year 2020-21
	Adopted Budget ⁽²⁾	Audited Actuals ⁽²⁾	Adopted Budget ⁽²⁾	Audited Actuals ⁽²⁾	Adopted Budget ⁽²⁾	Audited Actuals ^{(2) (3)}	Adopted Budget ⁽²⁾	Estimated Actuals ⁽⁴⁾	Adopted Budget ⁽⁴⁾
REVENUES									
LCFF	\$77,672,059	\$79,959,498	\$77,672,059	\$77,294,004	\$77,190,922	\$78,602,722	\$74,462,882	\$77,549,743	\$66,997,679
Federal Revenue	4,499,489	5,064,194	4,499,489	5,028,954	4,554,531	4,853,822	4,908,579	5,515,447	7,276,069
Other State Revenue	7,373,287	9,318,196	7,373,287	9,163,383	10,034,206	14,059,434	7,785,735	9,637,192	8,303,994
Other Local Revenue	3,722,400	5,756,856	3,722,400	5,892,794	3,400,541	6,195,221	3,305,792	6,065,624	4,259,891
TOTAL REVENUES	93,267,235	100,098,744	93,267,235	97,379,135	95,180,200	103,711,199	92,462,988	98,768,006	86,837,633
EXPENDITURES									
Certificated Salaries	44,549,598	44,788,230	44,549,598	45,832,753	43,179,511	44,120,390	42,403,264	42,538,282	42,203,828
Classified Salaries	14,453,784	13,807,684	14,453,784	14,112,389	14,756,572	14,389,894	14,546,103	14,150,997	14,610,190
Employee Benefits	23,867,179	21,641,757	23,867,179	23,550,718	24,631,102	28,545,668	25,194,255	24,526,857	24,802,137
Books and Supplies	2,679,384	3,005,173	2,679,384	2,607,072	2,177,844	2,493,658	2,189,948	3,008,900	2,619,285
Services & Other Operating Exp.	10,685,389	11,190,872	10,685,389	11,474,417	10,295,963	10,961,953	10,208,995	11,635,762	10,282,665
Capital Outlay	26,000	1,229,292	26,000	10,760	374,251	417,630	69,000	2,000	71,645
Other Outgo ⁽⁵⁾	389,991	387,968	389,991	490,181	537,516	445,803	742,261	748,528	757,813
Debt Service									
Principal	1,153,996	1,537,256	1,153,996	1,163,480	1,142,643	1,203,443	757,659	757,660	132,179
Interest and Other	578,633	578,087	578,633	570,408	547,541	475,526	527,784	527,522	13,568
TOTAL EXPENDITURES	98,383,954	98,166,319	98,383,954	99,812,178	97,642,943	103,053,965	96,639,269	97,896,508	95,493,310
Excess (Deficiency) of Revenue over Expenditures	(5,116,719)	1,932,425	(5,116,719)	(2,433,043)	(2,462,743)	657,234	(4,176,281)	871,498	(8,655,677)
OTHER FINANCING SOURCES (USES)									
Other Sources	--	368,817	--	72,506	329,251	523,590	--	(101,871)	--
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Financing Sources	(5,116,719)	2,301,242	(5,116,719)	(2,360,537)	(2,133,492)	1,180,824	(4,176,281)	769,627	(8,655,677)
FUND BALANCE, JULY 1	20,902,339	18,601,098	20,902,339	20,902,339	18,541,802	18,541,802	17,808,525	19,722,626	20,492,253
FUND BALANCE, JUNE 30	15,785,620	20,902,340	15,785,620	18,541,802	16,408,310	19,722,626	13,632,244	20,492,253	11,836,577

⁽¹⁾ Reflects combined unrestricted and restricted general fund. Includes financial activities of the dependent charter school located within the boundaries of the District. See "Franklin-McKinley School District – Charter Schools" herein. All amounts rounded to nearest whole number.

⁽²⁾ From the District's audited financial statements for fiscal years 2016-17 through 2018-19, respectively.

⁽³⁾ SB 90 was signed by the Governor at the end of June 2019 and requires on behalf payments for both STRS and PERS. A proportionate share of these contribution was included in the audited financial statements for fiscal year 2018-19. On behalf payments related to the SB 90 contributions were excluded from the calculation of available reserves and were not included in the General Fund budgeted amounts. See the Auditor's note in the audited financial statements for fiscal year 2018-19.

⁽⁴⁾ From the District's adopted budget, approved by the Board on June 23, 2020. Amounts rounded to nearest whole.

⁽⁵⁾ For presentation purposes, in fiscal year 2017-18, "Other Outgo (excluding Transfers of Indirect Costs)" and "Other Outgo – Transfers of Indirect Costs" have been combined, and debt service payments of principal and interest are reported separately.

Source: Franklin-McKinley School District

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the State Education Code, is to be followed by all State school districts.

The District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The District's accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

Comparative Financial Statements

Audited financial statements for the District for the fiscal year ended June 30, 2019 and prior fiscal years are on file with the District and available for public inspection at the Office of the Superintendent of the District, 645 Wool Creek Drive, San Jose, California 95112, telephone: (408) 283-6000. The audited financial statements for the year ended June 30, 2019 are attached hereto as Appendix B.

The table on the following page reflects the District's audited general fund revenues, expenditures and fund balances from fiscal year 2014-15 through fiscal year 2018-19.

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AUDITED GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES⁽¹⁾
Fiscal Years 2014-15 through 2018-19
Franklin-McKinley School District

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19
REVENUES					
LCFF	\$70,650,830	\$79,497,987	\$79,959,498	\$77,294,004	\$78,602,722
Federal Revenue	4,687,603	4,882,461	5,064,194	5,028,954	4,853,822
Other State Revenue	7,121,568	12,549,779	9,318,196	9,163,383	14,049,434
Other Local Revenue	6,184,011	5,290,832	5,756,856	5,892,794	6,195,221
TOTAL REVENUES	88,644,012	102,221,059	100,098,744	97,379,135	103,711,199
EXPENDITURES					
Current Expenses:					
Instruction	59,629,454	62,794,382	63,781,752	65,365,991	67,920,364
Instruction Related Activities:					
Supervision of Instruction	2,835,265	3,157,489	3,973,509	3,623,535	2,305,326
Instructional Library, Media & Technology	750,109	800,762	872,498	964,843	1,031,220
School Site Administration	6,712,803	7,571,805	8,187,833	8,496,836	9,043,759
Pupil Services:					
Home-to-School Transportation	1,458,616	1,639,326	1,743,657	1,677,863	2,202,074
Food Services	--	--	737	119	
All Other Pupil Services	2,105,107	2,154,606	1,968,642	2,794,985	3,144,853
Administration:					
Data Processing	2,252,858	1,181,168	1,554,869	1,512,952	1,444,853
All Other Administration	4,946,502	4,265,663	4,598,892	4,353,411	4,793,144
Plant Services	7,754,143	7,742,538	8,101,069	8,512,709	8,754,330
Facility Acquisition & Construction					
Other Outgo	195,909	583,248	653,542	775,048	735,166
Capital Outlays					76
Debt Service					
Principal	1,122,177	1,298,025	1,537,256	1,164,923	1,193,181
Interest and Other	799,654	574,528	578,087	568,965	485,788
TOTAL EXPENDITURES	90,562,597	93,763,745	98,166,319	99,812,180	103,053,965
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources and Uses	(1,918,585)	8,457,314	1,932,425	(2,433,044)	657,234
OTHER FINANCING SOURCES (USES):					
Other Sources	1,673,014	1,070,476	368,817	72,506	523,590
NET OTHER FINANCING SOURCES (USES):	1,673,014	1,070,476	368,817	72,506	523,590
NET CHANGE IN FUND BALANCES	(245,544)	9,527,790	2,301,242	(2,360,538)	1,180,824
FUND BALANCE, JULY 1	9,318,852	9,073,308	18,601,098	20,902,340	18,541,802
FUND BALANCE, JUNE 30	\$9,073,308	\$18,601,098	\$20,902,340	\$18,541,802	19,722,626

⁽¹⁾ From the District's comprehensive audited financial statements for fiscal years 2014-15 through 2018-19, respectively. Reflects combined unrestricted and restricted general fund. All amounts rounded to nearest whole number. Includes financial activities of the dependent charter school located within the boundaries of the District. See "Franklin-McKinley School District – Charter Schools" herein.

Source: Franklin-McKinley School District

Possible Impacts of COVID-19

The short-term and long-term effects of COVID-19 on the District's ADA, revenues, and local property values is unknown and uncertain. The Bonds described in this Official Statement are secured by *ad valorem* property taxes, and not the District's general fund. See "Disclosures Relating to COVID-19" herein.

State Budget Measures

The following information concerning the State's budgets has been obtained from publicly available information which the District believes to be reliable; however, the District does not guarantee the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information herein that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the proceeds of an ad valorem property tax required to be levied by the County in an amount sufficient for the payment thereof.

2019-20 State Budget. On June 27, 2019, the Governor signed the Budget Act of 2019 and several other pieces of related legislation to enact the fiscal year 2019-20 State budget (the "2019-20 State Budget"). The 2019-20 State Budget projects spending of approximately \$214.8 billion in total state funds, consisting of approximately \$147.8 billion from the General Fund (made up of \$91.9 billion in non-Proposition 98 funds and \$55.9 in Proposition 98 funds), \$61.1 billion from special funds, and \$5.9 billion from bond funds.

The allocation of these various funding sources exemplifies a balance of building budget resiliency and making strategic investments aimed at expanding opportunity, addressing affordability, and strengthening the state's emergency readiness and capabilities. For example, the 2019-20 State Budget allocates \$14.3 billion in 2019-20, and an additional \$500 million over the forecast period, for a total of \$14.8 billion to build budgetary resiliency and pay down the state's unfunded liabilities. This includes \$4.5 billion to eliminate debts and reverse deferrals, \$5.5 billion to build reserves, and \$4.3 billion to pay down unfunded retirement liabilities.

The 2019-20 State Budget includes \$103.4 billion in funding for the roughly six million K-12 students in the state of California. The \$103.4 billion is made up of \$58.8 billion from the General Fund and \$44.6 billion from other sources. This includes, for the first time, a \$376.5 million deposit into the Proposition 2 "Public School System Stabilization Account." Additionally, the 2019-20 State Budget provides \$1.9 billion in Proposition 98 funding for the Local Control Funding Formula (LCFF). This allocation reflects a 3.26% adjustment for cost of living. Additionally, the 2019-20 State Budget provides a \$645.3 million increase from the general fund for special education, which includes \$152.6 million to increase base special education funding rates and \$492.7 million for a special education early intervention preschool add-on grant for school districts serving children ages 3 to 5 years with exceptional needs.

The 2019-20 State Budget provides for certain adjustments in education spending, including the following:

Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through 2017-18.

Full-Day Kindergarten. The 2019-20 State Budget includes \$300 million in one-time non-Proposition 98 funding to construct new and retrofit existing facilities to support full-day kindergarten programs.

Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of \$36 million one-time Proposition 98 General Fund to provide an additional year of funding for this program, which provides a state match for classified employee savings used to provide income during summer months.

CalWORKs Child Care Cases. The 2019-20 State Budget includes an increase of \$157.5 million non-Proposition 98 General Fund to reflect increased CalWORKs child care case.

Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of \$2 million one-time Proposition 98 General Fund to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. It also includes, an increase of \$727,000 one-time Proposition 98 General Fund to reflect adjustments to the state's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the 2018 wildfires harmless for state funding for two years.

Breakfast After the Bell. The 2019-20 State Budget includes an increase of \$500,000 one-time Proposition 98 General Fund to increase participation in the Breakfast After the Bell school nutrition program.

California Association of Student Councils. The 2019-20 State Budget includes an increase of \$150,000 one-time non-Proposition 98 General Fund to provide leadership development opportunities for financially disadvantaged students.

Century California School Leadership Academy. The 2019-20 State Budget includes an increase of \$13.8 million federal funds to establish the 21st Century California School Leadership Academy for professional learning opportunities for school administrators and other school leaders.

The Governor has announced that the COVID-19 pandemic will result in significant declines in State revenues for the 2019-20 fiscal year. The financial outlook for the State's revenues are uncertain.

2020-21 Proposed State Budget. On January 10, 2020, the Governor released the proposed State budget for fiscal year 2020-21 (the "2020-21 Proposed State Budget"). The 2020-21 Proposed State Budget set out revised estimated prior year State general fund revenues (including transfers) of \$139.4 billion for fiscal year 2018-19 and \$146.5 billion for fiscal year 2019-20, and projected State general fund revenues of \$151.6 billion for fiscal year 2020-21. The proposal set out revised estimated State general fund expenditures of \$141.9 billion for fiscal year 2018-19 and \$149.7 billion for fiscal year 2019-20, and projected State general fund expenditures of \$153.1 billion for fiscal year 2020-21.

Under the 2020-21 Proposed State Budget, the Proposition 98 minimum guarantee for K-12 school districts and community college would total \$84 billion, of which almost 70% would be funded by the General Fund. This is an increase of \$2.5 billion (3%) over the revised 2019-20 level. Higher property tax revenue and higher General Fund revenue each account for about half of the increase in the 2020-21 minimum guarantee.

Below are some of the highlights from the Governor's 2020-21 Proposed State Budget focused on education spending:

Payments on Debts and Liabilities. The 2020-21 Proposed State Budget includes \$2 billion General Fund in constitutionally required debt payments for retiree health benefits, repayment of a 2017-18 loan from the State’s cash resources that supports a supplemental pension payment to STRS, and a supplemental pension payment to STRS.

Public School System Stabilization Account. The 2020-21 Proposed State Budget projects that a deposit in the Public School System Stabilization Account will be required in an amount of \$524.2 million, an increase of \$147.7 million over the deposit projected in the 2019-20 State Budget. The amount continues to be below the threshold required to trigger certain maximum local reserve levels for school districts created by State legislation approved in 2014 (and amended in 2017).

LCFF. The estimated COLA for 2020-21 is 2.29%.

Special Education. The 2020-21 Proposed State Budget continues to provide investments in special education, including \$4 million one-time Proposition 98 General Fund for dyslexia research, training, and a statewide conference.

Teacher Investments. The 2020-21 Proposed State Budget includes over \$900 million in one-time Proposition 98 funds to address California’s persistent educator shortage in the following programs:

- \$350 million to expand the Education Workforce Investment Grant program to, among other things, provide training to support students with disabilities and English learners, and develop educator capacity in various areas including social-emotional learning, non-discriminatory and anti-bullying supports for marginalized student groups, computer science and STEM fields;
- \$193 million for the Workforce Development Grant Program and \$175 million to expand the Teacher Residency Program to address teacher shortages in high-need subject areas;
- \$100 million to provide stipends for teachers who participate in the California Teacher Credential Award Program and complete four years of teaching in a high-need subject at a high-need school; and
- \$64.1 million to expand the Classified School Employees Credentialing Program to support classified staff who aspire to become credentialed teachers.

School Nutrition. The Governor proposed to increase funding for school nutrition by an ongoing \$60 million Proposition 98 appropriation and to create a \$10 million Proposition 98 fund to train school food service workers to provide healthier and more nutritious meals.

Low Performing Local Education Agencies. The 2020-21 Proposed State Budget includes a one-time \$300 million investment to establish Opportunity Grants and expand the capacity of the California Collaborative for Educational Excellence to assist the lowest-performing school and school districts.

May Revision to the 2020-21 Proposed State Budget.

On May 14, 2020, the Governor released the May Revision to the 2020-21 Proposed State Budget (“May Revision”). The May Revision is typically an updated budget proposal based on April tax filings. However, due to the COVID-19 pandemic, the federal and State income tax filing deadlines have been extended from April 15, 2020 to July 15, 2020. While the Legislature must pass a budget by June 15, 2020,

it is possible that the budget, when adopted in June, may be updated after the July 15, 2020 tax filing deadline, in order to more accurately reflect the actual income tax revenues.

The May Revision notes that the COVID-19 pandemic and the resulting economic consequences have had a dramatic impact on the State's fiscal outlook. There were 4.4 million unemployment claims from mid-March through May 9, 2020 and a projected unemployment rate of 18 percent. While job losses have occurred in nearly every sector of the economy, entrepreneurs who run small businesses have been severely impacted. Other sectors that have been impacted include areas that are not able to easily telecommute such as leisure and hospitality, retail trade, and personal services. The May Revision forecasts a peak unemployment rate of 24.5 percent in the second quarter of 2020. Personal income is expected to decline by 9% in 2020.

Following a record economic expansion, the U.S. economy entered into an economic downturn in March 2020, having an immediate negative impact on State revenues. All three major sources of revenue sources have shown significant declines relative to the Governor's original budget forecast. From 2018-19 through 2020-21, the May Revision baseline revenue estimate (absent policy changes) has decreased by over \$41 billion, and over \$43 billion before accounting for transfers. The changes in the three largest tax sources are:

- Personal income tax revenues are revised downward by almost \$33 billion due to a decline in all income sources, but particularly wages, proprietary income, and capital gains.
- Sales tax receipts are down by almost \$10 billion due mainly to lower consumption and investment by businesses.
- Corporation tax revenues are down over \$5 billion based on a significant drop in corporate profits.

After accounting for transfers, which includes loan repayments as well as automatic and discretionary transfers to the Rainy Day Fund, baseline General Fund revenues at the May Revision forecast are down relative to the Governor's Budget by \$41.2 billion (\$9.6 billion in the 2019-20 State Budget and \$32 billion in the 2020-21 Proposed State Budget).

The revenue decrease, combined with increase costs in health and human service programs and the added costs to address COVID-19, results in a projected budget deficit of approximately \$54 billion, before the changes proposed by the May Revision. To close the budget gap, the May Revision proposes to:

- Cancel \$6.1 billion in program expansions and spending increases.
- Draw down \$16.2 billion in the Budget Stabilization Account (i.e., the Rainy Day Fund) over three years, with \$8.3 billion withdrawn in 2020-21 (\$7.8 billion from the Rainy Day Fund and \$450 million from the Safety Net Reserves).
- Borrow and transfer \$4.1 billion from special funds.
- Undertake revenue generating measures with temporary suspension of net operating losses and temporarily limit to \$5 million the amount of credits a taxpayer can use in any given year, generating new revenue of \$4.4 billion in 2020-21.

- Reflect federal funds support of \$8.3 billion and triggers of \$14 billion in reductions to base programs and employee compensation that will be necessary if sufficient federal funding does not materialize.

The State estimates, as of May 9, 2020, that the State will benefit from over \$186 billion in federal stimulus funds (which amount includes approximately \$115 billion in direct benefits to individuals, families, small businesses, and higher education institutions, and \$71 billion to or through the State), as a result of the Coronavirus Preparedness and Response Supplemental Appropriations Act, the Families First Coronavirus Response Act, the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act. This federal funding is not expected to be sufficient to address the State's fiscal crisis.

With respect to California K-12 schools and community colleges, the economy and State's reduced General Fund revenues have an equally significant negative impact on the Proposition 98 education funding guarantee. The May Revision estimates that Proposition 98 funding will decline by \$19 billion from the 2020-21 Proposed State Budget, a decline of approximately 23% from the 2019-20 State Budget Proposition 98 funding level. To mitigate the impacts on school funding, the May Revision withdraws a number of funding proposals that were included in the 2020-21 Proposed State Budget, suspends the statutory cost-of-living adjustment of 2.31% in 2020-21 for all eligible programs, and proposes the following:

- *Temporary Revenue Increases.* The May Revision proposes a temporary three-year suspension of net operating losses and limitation on business incentive tax credits to offset no more than \$5 million of tax liability per year. These measures along with other more minor tax changes will generate \$4.5 billion in State General Fund revenues and approximately \$1.8 billion in benefit to the Proposition 98 education funding guarantee.
- *Federal Funds.* The May Revision proposes a one-time investment of \$4.4 billion (\$4 billion federal Coronavirus Relief Fund and \$355 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures, including supporting an earlier start date for the next school year. Funds will be allocated to local educational agencies offering classroom-based instruction based on a formula that takes into account the share of students most heavily impacted by school closures, including students with disabilities, low-income students, English learners, youth in foster care, and homeless youth
- *Revising CalPERS/CalSTRS Contributions.* The 2019-20 State Budget included \$850 million to buy down local educational agency employer contribution rates for STRS and PERS in 2019-20 and 2020-21, as well as \$2.3 billion towards the employer long-term unfunded liability. To provide local educational agencies with increased fiscal relief, the May Revision proposes redirecting the \$2.3 billion paid to STRS and PERS towards long-term unfunded liabilities to further reduce employer contribution rates in 2020-21 and 2021-22. This reallocation will reduce the STRS employer rate from 18.41% to approximately 16.15% in 2020-21 and from 18.2% to 16.02% in 2021-22. The PERS Schools Pool employer contribution rate will be reduced from 22.67% to 20.7% in 2020-21 and from 25% to 22.84% in 2021-22.

The May Revision indicates that in 2019-20 and 2020-21, the Proposition 98 funding level will drop below the target funding level by a total of approximately \$13 billion. To accelerate the recovery from this funding reduction, the May Revision proposes to provide supplemental appropriations above the constitutionally required Proposition 98 funding level, beginning in 2021-22, and in each of the next several

fiscal years, in an amount equal to 1.5% of State General Fund revenues per year, up to a cumulative total of \$13 billion. This will accelerate growth in the Proposition 98 guarantee, which the Administration proposes to increase as a share of the State General Fund. Currently, Proposition 98 guarantees that K-14 schools receive approximately 38% of the State General Fund in Test 1 years. The May Revision proposes to increase this share of funding to 40% by 2023-24.

The May Revision also reflects the withdrawal of all of the funding in the Public School System Stabilization Account, which was projected at the time of the January budget proposal to be approximately \$524 million in 2019-20. The May Revision projects that no additional deposits will be required and the entire amount is available to offset the decline in the Proposition 98 guarantee.

California received \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds. Of this amount, 90% (\$1.5 billion) will be allocated to local educational agencies in proportion to the amount of Title I-A funding they receive for COVID-19 related costs. The remaining 10% (\$164.7 million) is available for COVID-19 related state-level activities.

Absent additional federal funds, the impacts of COVID-19 necessitates a 10% (\$6.5 billion) reduction to LCFF, including the elimination of the 2.31% cost-of-living adjustment. This reduction to LCFF will be removed if the federal government provides sufficient funding to backfill this funding cut.

The May Revision also proposes apportionment deferrals to align Proposition 98 expenditures and resources with the need of local educational agencies to maintain a level of fiscal stability. The 2019-20 State Budget proposes to defer \$1.9 billion of LCFF apportionments to 2020-21, and an additional \$3.4 billion is added to the 2019-20 deferral in 2020-21, for a total of \$5.3 billion in LCFF deferrals scheduled for payment in 2021-22.

The May Revision includes certain fiscal and programmatic flexibilities, including: exemptions from deferrals in the case of documented hardship, excluding state pension payments on behalf of local educational agencies from the calculation of required contributions to restricted maintenance, increases on internal inter-fund borrowing, the use of proceeds from the sale of surplus property for one-time general fund purposes, options for special education staff to use technology-based options to serve students, and a one-year extension of the deadline for transitional kindergarten teachers to obtain 24 college units of early childhood education units.

The May Revision notes that property taxes are a local revenue source and the amount generated each year has a substantial impact on the State budget because local property tax revenues allocated to K-14 schools generally help offset State General Fund expenditures. Preliminary data show statewide property tax revenues increased 5.8% in 2019-20, which is 0.6% lower than the 6.4% growth rate anticipated in the Governor's 2020-21 Proposed State Budget. Property tax revenues are expected to grow 3.5% in 2020-21, which is 2.2% lower than the 5.7% growth expected at the time of the 2020-21 Proposed State Budget due to increased delinquencies, which typically rise in an economic downturn or recession. Approximately 42% (\$32 billion) of 2020-21 property tax revenues will go to K-14 schools. While this amount includes \$2.3 billion that schools are expected to receive in 2020-21 due to the dissolution of redevelopment agencies, it excludes the \$9.4 billion shifted from schools to cities and counties to replace Vehicle License Fee revenue losses stemming from the reduced fee rate of 0.65%.

2020-21 State Budget Bill. On June 15, 2020 the State Legislature met its constitutional deadline to act on a state spending plan for the 2020-21 fiscal year and approved its version of the 2020-21 State budget. However, the spending plan was approved without the Legislature reaching a final agreement with Governor Newsom. On June 22, 2020, legislative leaders and Governor Newsom announced a budget agreement. Following approval in the Legislature, the Governor signed the budget on June 29, 2020. Given

the extension of the income tax filing deadline to July 15, it is possible that the Governor and Legislature could revisit the 2020-21 State budget later this summer or fall when they have a more accurate picture of the State's revenues.

The following are key features of 2020-21 State budget with respect to K-12 education funding:

Layoff Protections. The budget agreement prevents school districts from laying off non-management certificated staff from July 1, 2020 to July 1, 2021, and classified staff in positions in nutrition, transportation or custodial services from July 1, 2020 to June 30, 2021.

LCFF. The budget agreement maintains LCFF at its 2019-20 levels. The 10% cut to LCFF proposed by the Governor in the May Revision will not be implemented. Further, consistent with the May Revision, the 2.31% statutory cost-of-living adjustment will not be applied.

Deferrals. In lieu of budget cuts to LCC, the budget agreement defers \$8.6 billion in LCFF funding to 2021-22. The budget agreement provides that, if federal funds materialize, such funds will restore deferrals above the May Revision's \$5.4 billion proposal. Deferred payments will be paid as follows: \$1.54 billion from the February apportionment paid in November, and \$2.38 billion from March, April, and May apportionments paid in October, September, and August, respectively.

The budget agreement realizes that school districts to rely heavily on cash flow from the State may feel a greater impact from the deferrals. Accordingly, the budget agreement allows for exemptions from deferrals when school districts will not be able to meet their obligations. The exemption requires the county superintendent of schools to certify that the school district has exhausted all internal and external sources of borrowing and absent an exemption, the school district will need an emergency state loan.

Learning Loss Mitigation Funding. The budget agreement provides one-time federal revenue from the CARES Act and other funds, to offset costs of addressing student learning lost attributable to the COVID-19 pandemic. Specifically, the following amounts will be appropriated:

- \$1.5 billion for students with disabilities to be distributed to school districts and other local educational agencies based on their Fall 1 Census Bureau enrollment of students with disabilities ages 3 to 22;
- \$2.86 billion to be allocated to school districts and other local educational agencies based on their proportion of supplemental and concentration grant funding using 2019-20 second principal apportionment certification; and
- \$980 million to be allocated to school districts and other local educational agencies based on the LCFF, which equals approximately \$165 per ADA.

This learning loss mitigation funding maybe spent on student learning supports, general measures that extend instructional time for students, providing additional core academic support for students who need it, and providing integrated services that support teaching and learning (i.e., student and staff technology needs, mental health services, staff professional development, and student nutrition). Receipt of such funding is contingent upon the adoption of a Learning Continuity and Attendance Plan (see below), along with enumerated reporting requirements with respect to unspent funds.

ADA Hold Harmless Provision. Similar to SB 117 (see "Disclosure Relating to COVID-19 – State and Local Action"), the budget agreement includes an ADA hold harmless provisions for 2020-21 that relies on adjusted ADA for 2019-20.

Instructional Minutes. The budget agreements allows for grade span instructional minute to be satisfied through a combination of in-person instruction and distance learning.

Distance Learning. School districts may provide distance learning (1) on a district-wide or school-wide level as a result of an order or guidance from a State public health officer or a local public health officer, or (2) for pupils who are medically fragile or would be put at risk by in-person instruction, or who are self-quarantining because of exposure to COVID-19. Further, the budget agreement requires school districts providing distance learning to comply with certain requirements, including the following:

- Confirmation or provision of access for all students to connectivity and devices to participate in distance learning and complete assigned schoolwork;
- Content that is aligned to grade level standards and provided at a level of quality and intellectual challenge substantially equivalent to in-person instruction;
- Special education services with accommodations necessary to ensure that a student’s individualized education program can be executed in the distanced learning environment;
- Designated and integrated instruction in English language development for English learners, including assessment of English language proficiency, support to access curriculum, the ability to reclassify to fully English proficient, and support for dual language learning; and
- Daily live interaction with certificate employees and peers for purposes of instruction, progress monitoring, and maintaining connectedness, or comparable level of service and school connectedness when daily live interaction is not feasible.

Learning Continuity and Attendance Plan. The governing boards of school district must adopt by September 30, 2020 a “Learning Continuity and Attendance Plan.” An LCAP (see “District Financial Information – State Funding of Education – Local Control Funding Formula”) for 2020-21 will not be required, but school district will still be required to adopt an LCFF Budget Overview for Parents by December 15, 2020. The Learning Continuity and Attendance Plan will address the following:

- How COVID-19 impacts students and staff in the areas of health and safety;
- How student participation will be measured, and academic progress assessed through synchronous instruction; how the time value of student work will be measured; and what metrics will be used to measure learning loss;
- How school districts will address learning loss due to COVID-19 in 2019-20 and 2020-21 school years;
- How school districts will reach out to students and their parents or guardians when students are not engaging or are absent, and how school district will reengage students who are absent from distance learning for more than three days;
- Types of additional supports to address the learning loss of, and accelerate the learning progress for, English learners, foster youth, homeless students, and low-income students;
- Types of professional development support and resources for educators, including to address trauma and other impacts of COVID-19;

- How school districts will provide student meals for in-person instruction and distance learning;
- How school districts will align State and federal funding with student needs; and
- How State and federal funds will be used to support the Learning Continuity and Attendance Plans, including how supplemental and concentration grants and federal funds used to backfill losses from reductions to the LCFF will be use to meet LCFF proportionality requirements.

Special Education. Consistent with 2020-21 Proposed State Budget and the May Revision, the formula for special education funding will change in 2020-21. As a result, special education will receive an ongoing funding increase of \$545 million.

STRS and PERS. The budget agreement increases the State’s advance payments on behalf of employers towards the employers’ contribution rates for STRS for the current fiscal year, 2020-21 and 2021-22. Additionally, the budget agreement prohibits the STRS Board from modifying the employer contribution rate in 2020-21, and instead maintains the 2019-20 rate. With respect to PERS, the budget agreement increases the State’s apportionment for advance payments of required school employer contributions for 2020-21, and repeals the State’s apportionment for the unfunded liabilities of school employers whose assets and liabilities are merged.

Future Actions and Budgets. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control, including the current COVID-19 global health crisis. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State’s ability to fund school districts. State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District. However, the obligation to levy *ad valorem* property taxes upon all taxable property within the District for the payment of principal of and interest on the Bonds would not be impaired.

The May Revision substantially cut per student funding levels by 10% after applying the annual cost-of-living adjustment increase of 2.31%. This would have reduced 2020-21 revenue previously projected at the 2nd Interim Financial Report by \$7,372,568. The budget agreement eliminates the 10% cut to per student funding in 2020-21 but also eliminated the 2.31% COLA. Following the Governor’s signing of the budget, the District expects only a \$1.6 million dollar decrease in 2020-21 LCFF revenue compared to the 2020-21 Proposed State Budget. The District has enough cash on hand to manage the deferrals proposed for 2019-20 and 2020-21 fiscal years. Although revenue cuts to education are less than previously expected, if such cuts to educational funding continue in the future, it will become necessary for the District to make strategic cuts in staffing personal and to reduce compensation district wide. The District’s bargaining units are aware of this proposed impact and have indicated they are willing to work with the District to make the necessary cuts to save jobs and keep the District fiscally solvent.

The current and proposed State budgets are expected to be impacted by the COVID-19 emergency described herein. Notwithstanding data contained in the May Revision, the District cannot predict the impact that the COVID-19 emergency, the results of the 2019-20 State Budget, the 2020-21 Proposed State Budget, or subsequent state budgets, including adjustments made for economic conditions, will have on its own finances and operations. However, the Bonds are secured by *ad valorem* taxes levied and collected on

taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

The information in this section concerning the operations of the District and the District’s finances are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of and interest on the Bonds is payable from the general fund of the District. The Bonds are payable solely from the revenues generated by an ad valorem property tax levied by the County on property within the District for the payment thereof. See “The Bonds – Security and Sources of Payment” herein.

Introduction

The District was established in January 1948 and serves students in grades K-8. The District encompasses approximately 11.9 square miles, is located approximately 50 miles south of San Francisco, and serves a portion of the City of San Jose and certain unincorporated areas of the County. The District operates one elementary school for kindergarten through third grade, eight elementary schools for kindergarten through sixth grade, three elementary schools for kindergarten through eighth grade, one elementary school for fourth through eighth grade, and three middle schools for seventh through eighth grade. The District has projected a fiscal year 2019-20 ADA of 6,871 students, and the District’s assessed valuation for fiscal year 2019-20 is \$10,558,914,204.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of subsequent audited financial reports of the District may be obtained by contacting: Franklin-McKinley School District, Attention: Superintendent, 645 Wool Creek Drive, San Jose, California 95112.

Administration

The District is governed by a five-member Board, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their offices and the dates their terms expire, are listed below:

BOARD OF EDUCATION Franklin-McKinley School District

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
George Sanchez	President	November 2020
Maimona Afzal Berta	Vice President	November 2020
Thanh Tran	Clerk	November 2022
Kerry Rosado	Member	November 2022
Rudy Rodriguez	Member	November 2022

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Brief biographies of the Superintendent and the Assistant Superintendent, Business Services follow:

Juan Cruz, Superintendent. Mr. Cruz joined the District as Superintendent in July 2015. Immediately prior thereto, Mr. Cruz served as Associate Superintendent of Educational Services for the East Side Union High School District for three years. Mr. Cruz has also served as Principal at Santa Teresa High School, Principal at Yerba Buena High School, and Associate Principal of Educational Development at Piedmont Hills High School and has taught Social Science. Mr. Cruz earned a Bachelor’s Degree in Social Science and a Master’s Degree in Education Leadership, each from San Jose State University.

Jason Vann, Assistant Superintendent, Business Services. Jason Vann is the Assistant Superintendent of Business Services at Franklin-McKinley School District. He assumed his role as Assistant Superintendent on January 22, 2018. Mr. Vann has worked in public education for more than eight years and has a combined total of twenty-two years of professional accounting and finance experience. Prior to joining the Franklin-McKinley School District team, he served as the Chief Financial Officer of Cambrian School District in San Jose for four and a half years. He also worked at the Santa Clara County Office of Education for four years in various roles including District Business Advisor (performing AB 1200 Fiscal Oversight duties) for several school districts. Mr. Vann earned a Bachelor’s Degree in Accounting from the State University of New York at Binghamton. Mr. Vann has also earned a Certified Public Accountant License from the State of New York.

District Enrollment

On average throughout the District, the regular education pupil-teacher ratio is approximately 24:1 in grades K-3, 32:1 in grades 4-6 and 23.5:1 in grades 7-8. The following table shows enrollment figures for the District for fiscal years 2011-12 through 2020-21.

The District has faced declining enrollment for a number of years partly due to the exodus of families from the State of California due to the high cost of living. For those that stay in California, families, especially those with school age children, look to find areas with more affordable home prices. Another reason is that once families purchase a home in this area, the parents tend to stay in the area even after their children leave the District, reducing the opportunity for new families with school-age children to move into the area.

**HISTORICAL ENROLLMENT
Fiscal Years 2011-12 through 2020-21
Franklin-McKinley School District**

Fiscal Year	Enrollment ⁽¹⁾	% Change in Enrollment
2011-12	9,671	(2.33)
2012-13	9,461	(2.17)
2013-14	9,364	(1.03)
2014-15 ⁽²⁾	8,966	(4.25)
2015-16	8,575	(4.36)
2016-17	8,028	(6.38)
2017-18	7,637	(4.87)
2018-19	7,301	(4.40)
2019-20	6,861	(6.03)
2020-21	6,649	(3.09)

⁽¹⁾ For fiscal years 2009-10 through 2012-13, reflects CBEDS enrollment. For fiscal years 2013-14 through 2019-20, reflects CALPADS enrollment. In all years, includes the enrollment of the dependent charter school located within the District’s boundaries.

⁽²⁾ Starting 2014-15, enrollment includes the COE Special Education program.

Source: *Franklin-McKinley School District*

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the State Education Code (the “Charter School Law”). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education, or the State Board of Education.

A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are: (i) to provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; (ii) to hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability; and (iii) to provide competition within the public school system to stimulate improvements in all public schools.

The District has certain fiscal oversight and other responsibilities with respect to both independent and dependent charter schools established within its boundaries. However, independent charter schools receive funding directly from the State, and such funding would not be reported in the District’s audited financial statements. Dependent charter schools receive their funding from the District, and their funding would be reflected in the District’s audited financial statements.

There are eight charter schools currently operating within the District, one of which is dependent (collectively, the “Charter Schools”). Currently, there are no pending applications for additional charter schools within the District. The following table shows enrollment figures for the District’s Charter Schools for the past ten fiscal years.

CHARTER SCHOOL ENROLLMENT⁽¹⁾ Fiscal Years 2010-11 through 2019-20 Franklin-McKinley School District

Fiscal Year	Dependent Charter School	Independent Charter School
2010-11	658	372
2011-12	643	949
2012-13	692	1,242
2013-14	703	1,905
2014-15	597	2,256
2015-16	541	2,569
2016-17	452	3,168
2017-18	378	3,493
2018-19	345	3,579
2019-20	297	3,529

⁽¹⁾ The enrollment shown in this table reflects total enrollment at the Charter Schools. However, not all students enrolled at the Charter Schools reside within the District’s boundaries. The percentage of students enrolled in the respective Charter Schools that also reside within the District’s boundaries currently ranges from approximately 40% to 96%.

Source: *Franklin-McKinley School District*

The District can make no representations regarding how many District students will transfer to charter schools in the future or back to the District from charter schools, and the corresponding financial impact on the District.

Effects of COVID-19 on the District

On March 13, 2020, in an effort to reduce the spread of transmission of COVID-19 and consistent with the recommendations of the Governor and the State Superintendent of Public Instruction, as well as public health authorities from the County and the State, the District announced the closure of all schools. On April 7, 2020, the Santa Clara County Office of Education announced that county superintendents, after consultation with the public health officers in six Bay Area counties, determined to extend school closures through the remainder of the 2019-2020 school year to slow the spread of COVID-19 to the maximum extent. To continue providing educational services to students, the District implemented distance learning including the use of technology at home and students accessing lessons and activities assigned by their classroom teachers on a flexible time schedule to accommodate working parents. During the time students have not been at school, the District has undertaken deep cleaning of its facilities. The District is currently in the process of closing out the current school year and developing plans for the re-opening of its facilities for students and employees in accordance with recommendations and guidance from the State, local health officials, and the County Office of Education.

Pursuant to SB 89 and SB 117, the District expects to receive LCFF funding in fiscal year 2019-20 based on its ADA through February 29, 2020, and will be held harmless for not meeting minimum instructional day and minute requirements during the academic year. The District further expects that costs incurred due to COVID-19, such as sanitizing facilities, meal delivery, and distance learning, will be offset by State funding under SB 117 (approximately \$120,000), the anticipated overall reduction in expenses (such as for utilities, transportation, and substitute teachers, as a result of school closures), federal funding under the CARES Act, and Federal Emergency Management Agency (FEMA) disaster relief. The District anticipates receiving emergency federal funding of \$6.2 million under the CARES Act to address costs which may have resulted from the COVID-19 outbreak response as well as to mitigate any learning loss for students during the COVID-19 outbreak.

The District's Board 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. At June 30, 2019, the District's available reserves totaled consisting of \$10,564,823 in unassigned fund balance and \$4,965,403 reserved for economic uncertainties. This reserve amount is equal to 15.07% of General Fund expenditures and other financing uses. See "Appendix B – 2018-19 Audited Financial Statements of the District" attached hereto.

The District receives a significant portion of its revenues from State funds and local property taxes. Declines in State revenues as a consequence of the COVID-19 outbreak could result in a corresponding decline in revenues available for the District. See "District Financial Information – State Funding of Education," "Budget Process," and "State Budget Measure" herein.

Recent investment losses in the PERS and STRS portfolios as a result of the general market downturn caused by the COVID-19 outbreak may result in increases in the District's required contributions in future years. The District cannot predict the level of such increases, if any.

The possible impacts that the COVID-19 outbreak may have on the District's financial condition, educational programs, credit ratings on its debt obligations, local property value, and the economy in general cannot be predicted with any certainty. Further, the District cannot predict the outbreak's extent or duration or what impact the outbreak as well as responses by federal, State or local authorities may have on the District's financial condition. In addition, there may be unknown consequences of COVID-19 that the District is unable to predict. See "Disclosure Relating to COVID-19" herein.

Labor Relations

The District currently employs 427 full-time equivalent (“FTE”) certificated employees and 305 FTE classified employees. These employees, except management and some part-time employees, are represented by the two bargaining units as noted below. The contracts for both bargaining units have been settled for July 1, 2018 to June 30, 2021. The Franklin-McKinley Education Association contract was settled and included a 3.5% salary schedule increase retroactive to July 1, 2019 but the salary schedule was decreased by 1% starting July 1, 2020. The Classified School Employees Association contract was settled and included a 2.38% salary increase retroactive to July 1, 2019.

BARGAINING UNITS Franklin-McKinley School District

<u>Bargaining Units</u>	<u>Number of Employees in Bargaining Unit</u>	<u>Contract Expiration Date</u>
Franklin-McKinley Education Association	397	June 30, 2021
California School Employees Association	289	June 30, 2021

Source: Franklin-McKinley School District

District Retirement Systems

The information set forth below regarding the STRS and PERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.

STRS. All full-time certificated employees, as well as certain classified employees, are members of the State Teachers’ Retirement System (“STRS”). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program (the “STRS Defined Benefit Program”). The STRS Defined Benefit Program is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers, and the State. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended from time to time.

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State passed the legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by such statutes to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed AB 1469 (“AB 1469”) into law as a part of the State’s fiscal year 2014-15 budget. AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the “2014 Liability”), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing July 1, 2014,

the employee contribution rate increased over a three-year phase-in period in accordance with the following schedule:

**MEMBER CONTRIBUTION RATES
STRS Defined Benefit Program**

<u>Effective Date</u>	<u>STRS Members Hired Prior to January 1, 2013</u>	<u>STRS Members Hired After January 1, 2013</u>
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200	8.560
July 1, 2016	10.250	9.205
July 1, 2017	10.250	9.205
July 1, 2018	10.250	10.205
July 1, 2019	10.250	10.205

Source: AB 1469

Pursuant to AB 1469, K-14 school districts' contribution rate will increase over a seven-year phase-in period in accordance with the schedule below.

**K-14 SCHOOL DISTRICT CONTRIBUTION RATES
STRS Defined Benefit Program**

<u>Effective Date</u>	<u>K-14 School Districts</u>
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10
July 1, 2021*	18.30
July 1, 2022*	18.30

*Projected

Source: AB 1469

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter, the STRS Teachers' Retirement Board (the "STRS Board") is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, AB 1469 also requires the STRS Board to report to the State Legislature every five years (commencing with a report due on or before July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability. According to the report, the STRS Defined Benefit Program is on target and expected to reach 99.9% funded by 2046.

The District's contribution to STRS was \$3,713,348 in fiscal year 2014-15, \$4,662,235 in fiscal year 2015-16, \$5,435,247 in fiscal year 2016-17, \$6,416,567 in fiscal year 2017-18, and \$6,915,752 in

fiscal year 2018-19, and in each such year was equal to 100% of the required contributions. The District projected a contribution of \$6,909,664 to STRS in fiscal year 2019-20.

The State's contribution to STRS reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. This supplemental amount is 5.8111% effective as of July 1, 2019. In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance. The total State contribution rate to STRS as of July 1, 2019 is 10.328%.

PERS. Classified employees working four or more hours per day are members of the Public Employees' Retirement System ("PERS"). PERS provides retirement and disability benefits, annual COLA's, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund ("PERF"). PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2019 included 1,571 public agencies, of which 57 were county offices of education. The 57 county offices of education contract to provide benefits to 1,319 school districts and charter schools. PERS acts as the common investment and administrative agent for the member agencies. The State and K-14 school districts (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the "Schools Pool").

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which is 15.531% of eligible salary expenditures for fiscal year 2017-18 and 18.062% for fiscal year 2018-19. Participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 6.5% of their respective salaries for fiscal year 2017-18 and 7.0% for 2018-19. See "California Public Employees' Pension Reform Act of 2013" herein.

The District's contribution to PERS was \$1,102,946 in fiscal year 2014-15, \$1,614,965 in fiscal year 2015-16, \$2,064,693 in fiscal year 2016-17, \$2,407,570 in fiscal year 2017-18, and \$2,900,839 in fiscal year 2018-19, and in each such year was equal to 100% of the required contributions. The District has projected a contribution of \$2,726,802 to PERS in fiscal year 2019-20.

For further information about the District's contributions to STRS and PERS, see "Appendix B – 2018-19 Audited Financial Statements of the District" attached hereto.

State Pension Trusts. Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: www.calstrs.com; (ii) PERS:

www.calpers.ca.gov. However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS. Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

FUNDED STATUS
STRS (Defined Benefit Program) and PERS
(Dollar Amounts in Millions)⁽¹⁾
Fiscal Years 2013-14 through 2017-18 (PERS) and 2018-19 (STRS)

<u>STRS</u>					
Fiscal Year	Accrued Liability	Value of Trust Assets (MVA) ⁽²⁾	Unfunded Liability (MVA) ⁽²⁾	Value of Trust Assets (AVA) ⁽³⁾	Unfunded Liability (AVA) ⁽³⁾
2013-14	\$231,213	\$179,749	\$61,807	\$158,495	\$72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261
2017-18	297,603	211,367	101,992	190,451	107,152
2018-19	310,719	225,466	102,636	205,016	105,703

<u>PERS</u>					
Fiscal Year	Accrued Liability	Value of Trust Assets (MVA) ⁽²⁾	Unfunded Liability (MVA) ⁽²⁾	Value of Trust Assets (AVA) ⁽³⁾	Unfunded Liability (AVA) ⁽³⁾
2013-14	\$65,600	\$56,838	\$8,761	-- ⁽⁴⁾	-- ⁽⁴⁾
2014-15	73,325	56,814	16,511	-- ⁽⁴⁾	-- ⁽⁴⁾
2015-16	77,544	55,785	21,759	-- ⁽⁴⁾	-- ⁽⁴⁾
2016-17	84,416	60,865	23,551	-- ⁽⁴⁾	-- ⁽⁴⁾
2017-18	92,071	64,846	27,225	-- ⁽⁴⁾	-- ⁽⁴⁾

⁽¹⁾ Amounts may not add due to rounding.

⁽²⁾ Reflects market value of assets.

⁽³⁾ Reflects actuarial value of assets.

⁽⁴⁾ Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets

Source: California State Teachers' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019; California State Teachers' Retirement System, Defined Benefit Program Actuarial Valuation for Fiscal Year Ended June 30, 2019; California Public Employees' Retirement System, Schools Pool Actuarial Valuation as of June 30, 2018.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. The following are certain of the actuarial assumptions adopted by the STRS Board with respect to the STRS Defined Benefit Program Actuarial Valuation for fiscal year 2018-19: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” 7.00% investment rate of return (net of investment and administrative expenses), 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation. According to the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2019, the future revenue from contributions and appropriations for the STRS Defined Benefit Program was projected to be sufficient to finance its

obligations. This finding reflects the scheduled contribution increases specified in AB 1469 and is based on the valuation assumptions and the valuation policy adopted by the STRS Board. However, significant declines in investment markets that have occurred in the first half of the 2020 calendar year, due in part to COVID-19, are predicted to have an adverse impact on future funding for the STRS Defined Benefit Program. Such impacts were not directly reflected in the projections set forth in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2019.

In recent years, the PERS Board of Administration (the “PERS Board”) has taken several steps, as described below, intended to reduce the amount of the unfunded accrued actuarial liability of its plans, including the Schools Pool. On March 14, 2012, the PERS Board voted to lower the PERS’ rate of expected price inflation and its investment rate of return (net of administrative expenses) (the “PERS Discount Rate”) from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over the next three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate went into effect July 1, 2017 for the State and went into effect July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 under the Reform Act (defined below) will also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

On April 17, 2013, the PERS Board approved new actuarial policies aimed at returning PERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year fixed amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five-year reduction of public agency contribution rates at the end of such amortization period. The new actuarial policies were first included in the June 30, 2014 actuarial valuation and were implemented with respect the State, K-14 school districts and all other public agencies in fiscal year 2015-16.

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The new actuarial assumptions were first reflected in the Schools Pool in the June 30, 2015 actuarial valuation. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State, K-14 school districts and all other public agencies.

The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make additional contributions to STRS in the future above those amounts required under AB 1469. The District can also provide no assurances that the District’s required contributions to PERS will not increase in the future.

California Public Employees’ Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees’ Pension Reform Act of 2013 (the “Reform Act”), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1,

2013 (the “Implementation Date”). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

GASB Statement Nos. 67 and 68. On June 25, 2012, Governmental Accounting Standards Board (“GASB”) approved Statements Nos. 67 and 68 (the “Statements”) with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government’s balance sheet (such unfunded liabilities were typically included as notes to the government’s financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflow of resources, deferred inflow of resources and pension expense for STRS and PERS as shown in the following table.

	Net Pension Liability	Deferred Outflow of Resources	Deferred Inflow of Resources	Pension Expense
STRS	\$75,271,657	\$20,777,839	\$9,238,389	\$8,266,372
PERS	31,326,020	8,705,589	--	6,448,151
Total	\$106,597,677	\$29,483,428	\$9,238,389	\$14,714,523

Source: Franklin-McKinley School District.

Other Post-Employment Benefits

The District does not provide post-employment health care benefits to the majority of its former employees. The District does provide post-employment health care benefits, in accordance with District employment contracts, to one employee who retired from the District in 2006 and two employees who retired from the District in 2015 (the “Benefits”). The District contributes 100% of the amount of premiums incurred by such retirees. Expenditures for the Benefits are recognized on a pay-as-you-go basis, as retirees’ premiums are paid. The District paid \$56,718, \$58,157, and \$65,185 for the Benefits in fiscal years 2016-17, 2017-18, and 2018-19, respectively, and projected a payment of \$54,375 for the Benefits in fiscal year 2019-20, and \$40,000 for fiscal year 2020-21. The approximate accumulated future liability for the District at June 30, 2019 amounts to \$1,527,547. This amount was calculated based upon the three retirees receiving the Benefits multiplied by the District payment in effect at June 30, 2019, multiplied by the number of years of payments remaining, with health care cost trend rate of 8%.

Social Security

As established by federal law, all public sector employees who are not members of their employer’s existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. For the District’s employees not covered under STRS or PERS, the District uses Social Security as an alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2% of an employee’s gross earnings.

Supplemental Early Retirement Programs

The District offered a supplemental early retirement plan during fiscal year 2011-12 (the “2011-12 SERP”) through Keenan & Associates. Payments of \$240,304 per year were paid over a 5-year period, which had a final payment in July 2016. In 2016-17, the District provided a Supplemental Early Retirement Incentives Program to eligible employees. Payments of \$362,927 were paid over a 5-year period, which has a final payment in 2021. In 2018-19, the District provided a Supplemental Early Retirement Incentives Program to eligible employees. Payments of \$262,669 were paid over a 5-year period, which has a final payment in 2023. In 2019-20, the District provided a Supplemental Early Retirement Incentives Program to eligible employees. Payments of \$202,517 are to be paid over the next 5-year period, which has a final payment in 2024, as well as a lump sum payment of \$57,000 in 2020 in connection with the SERP due to a death claim.

Risk Management and Joint Powers Authorities

The District is exposed to various risk 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 2019-20, the Santa Clara County Schools Insurance Group (“SCCSIG”) joint powers authority provides the District’s

health, workers' compensation, and property and liability coverage and the East Valley Transportation joint powers authority ("EVT," and, together with SCCSIG, the "JPA's") provides transportation services for special education students.

The District participates in joint powers agreements with each of the JPA's. The District has appointed one board member to the governing board of each of the JPA's. The JPA boards control the respective operations of the JPA's, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium or fees commensurate with the level of coverage requested or services consumed and shares surpluses and the deficits proportionately to its participation in that JPA. During fiscal year 2018-19, the District made payments of \$551,404 and \$690,078 to SCCSIG and EVT, respectively. The District has projected payments of \$576,325 and \$743,037 to SCCSIG and EVT, respectively, in fiscal year 2019-20. The District has projected payments of \$576,259 and \$770,826 to SCCSIG and EVT, respectively, in fiscal year 2020-21. The relationship between the District and the JPA's is such that neither JPA is a component unit of the District for financial reporting purposes. See also "Appendix B – 2018-19 Audited Financial Statements of the District" attached hereto.

District Debt Structure

Short-Term Obligations. The District currently has no outstanding short-term debt obligations.

Long-Term Obligations. A schedule of changes in long-term debt for the fiscal year ended June 30, 2019, is shown below:

SCHEDULE OF LONG-TERM DEBT As of June 30, 2019 Franklin-McKinley School District

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
General Obligation Bonds	\$107,957,838	\$45,571,690	\$7,550,000	\$145,979,528
Bond Premiums	3,921,392	2,451,385	494,930	5,877,847
Certificates of Participation ⁽¹⁾	3,660,000	--	320,000	3,340,000
Capital Leases	14,655,463	523,590	1,193,181	13,985,872
Accumulated Vacation – Net	420,057	8,094	--	428,151
Postemployment Health Care Benefits	1,479,583	113,149	65,183	1,527,547
Early Retirement Incentive	<u>1,451,708</u>	<u>1,262,830</u>	<u>362,927</u>	<u>2,351,611</u>
TOTAL	\$133,546,041	\$49,930,738	\$9,986,223	\$173,490,556

⁽¹⁾ Reflects debt service due on the Refunding Lease (described below), the proceeds of which were used to refund certain of the District's then-outstanding certificates of participation. All or a portion the Refunding Lease will be paid with Bond proceeds. See "Franklin-McKinley School District – District Debt Structure – Refunding Lease."

Source: Franklin-McKinley School District

Refunding Lease. In January 2013, the District entered into a Lease/Purchase Agreement (the “Refunding Lease”) by and between itself, as lessee, and Public Property Financing Corporation of California, as lessor, in the principal amount of \$5,195,000. Public Property Financing Corporation of California has assigned its rights under the Refunding Lease to Capital One Public Funding, LLC, as purchaser thereof. The proceeds of the Refunding Lease were used to refinance the District’s then-outstanding Certificates of Participation (2002 Financing Project) Series B. Currently, \$3,010,000 principal amount of the District’s lease payment obligations pursuant to the Refunding Lease remain outstanding and the District’s payment obligations pursuant to the Refunding Lease mature through 2027 as set forth in the table below. The District intends to prepay all or a portion of the Refunding Lease with proceeds of the Bonds. See “Plan of Finance – Application and Investment of Bond Proceeds.”

Lease Year Ending (September 1)	Principal	Interest	Total
2020	\$340,000.00	\$85,785.00	\$425,785.00
2021	350,000.00	76,095.00	426,095.00
2022	360,000.00	66,120.00	426,120.00
2023	375,000.00	55,860.00	430,860.00
2024	380,000.00	45,172.50	425,172.50
2025	390,000.00	34,342.50	424,342.50
2026	400,000.00	23,227.50	423,227.50
2027	<u>415,000.00</u>	<u>11,827.50</u>	<u>426,827.50</u>
TOTAL	<u>\$3,010,000.00</u>	<u>\$398,430.00</u>	<u>\$3,458,430.00</u>

Source: Franklin-McKinley School District.

Capital Leases. In July 2013, the District entered into a lease/purchase agreement (the “Solar Lease”) by and between itself, as lessee, and Public Property Financing Corporation of California, as lessor, in the principal amount of \$15,610,000. The District’s payment obligations pursuant to the Solar Lease bear interest at a rate of 3.790%. Public Property Financing Corporation of California has assigned its rights under the Solar Lease to The Bank of Nevada, a Nevada corporation, as purchaser thereof. Currently, \$13,160,000 principal amount of the District’s lease payment obligations pursuant to the Solar Lease remain outstanding. The District’s payment obligations pursuant to the Solar Lease mature through 2034.

The District has entered into additional lease/purchase agreements (together with the Solar Lease, the “Capital Leases”) for various vehicles and equipment, as well. As of June 30, 2019, the Capital Leases, in aggregate, mature through 2034 as shown in the following schedule.

Year Ending (June 30)	Principal	Interest	Total
2020	\$365,000	\$495,353	\$860,353
2021	420,000	480,951	900,951
2022-2026	3,040,000	2,112,262	5,152,262
2027-2031	5,055,000	1,373,401	6,428,401
2032-2034	<u>4,280,000</u>	<u>293,157</u>	<u>4,573,157</u>
TOTAL	<u>\$13,160,000</u>	<u>\$4,755,124</u>	<u>\$17,915,124</u>

Source: Franklin-McKinley School District.

General Obligation Bonds.

2001 Authorization. The District received authorization at an election held on June 5, 2001 by the requisite two-thirds of the votes cast by eligible voters within the District to issue \$18,000,000 aggregate principal amount of general obligation bonds (the “2001 Authorization”). On October 10, 2001 the District caused the issuance of \$8,999,326.05 principal amount of its Election of 2001 General Obligation Bonds,

Series A the (“2001 Series A Bonds”). On January 8, 2003 the District caused the issuance of \$5,498,794 principal amount of its Election of 2001 General Obligation Bonds, Series B (the “2001 Series B Bonds”). On February 11, 2004, the District caused the issuance of \$3,500,047 principal amount of its Election of 2001 General Obligation Bonds, Series C (Bank Qualified) (the “2001 Series C Bonds”).

On April 4, 2006 the District issued \$6,950,000 principal amount of its 2006 General Obligation Refunding Bonds (the “2006 Refunding Bonds”) to refund a portion of the then-outstanding 2001 Series A Bonds and the 2001 Series B Bonds.

2004 Authorization. The District received authorization at an election held on November 2, 2004 by the requisite 55% of the votes cast by eligible voters within the District to issue \$30,000,000 aggregate principal amount of general obligation bonds (the “2004 Authorization”). On April 14, 2005 the District caused the issuance of \$15,999,162 principal amount of its Election of 2004 General Obligation Bonds, Series A (the “2004 Series A Bonds”). On February 6, 2008 the District caused the issuance of \$14,000,000 principal amount of its 2004 Series B Bonds.

On August 5, 2008, the District issued \$7,340,000 principal amount of its 2008 General Obligation Refunding Bonds (the “2008 Refunding Bonds”) to refund a portion of the then-outstanding 2004 Series A Bonds. On July 17, 2014, the District issued \$4,690,000 principal amount of its 2014 General Obligation Refunding Bonds (the “2014 Refunding Bonds”) to refund the remaining portion of the then-outstanding 2004 Series A Bonds. On August 30, 2018, the District issued \$1,590,000 principal amount of its 2018 General Obligation Refunding Bonds (the “2018 Refunding Bonds”), a portion of the proceeds of which were used to refund the remaining portion of outstanding 2008 Refunding Bonds.

On October 14, 2015, the District issued \$13,425,000 principal amount of its 2015 General Obligation Refunding Bonds (the “2015 Refunding Bonds”) to refund a portion of the then-outstanding 2004 Series B Bonds. On January 11, 2017, the District issued \$5,730,000 principal amount of its 2017 General Obligation Refunding Bonds (the “2017 Refunding Bonds”) to refund a portion of the then-outstanding 2004 Series B Bonds. The District used a portion of the proceeds of the 2018 Refunding Bonds to refund the remaining portion of outstanding 2004 Series B Bonds.

2010 Authorization. The District received authorization at an election held on November 2, 2010 by the requisite 55% of the votes cast by eligible voters within the District to issue \$50,000,000 aggregate principal amount of general obligation bonds (the “2010 Authorization”). On April 26, 2011, the District caused the issuance of \$10,663,985 principal amount of its Election of 2010 General Obligation Bonds, Series A (the “2010 Series A Bonds”). Concurrently with the issuance of the 2010 Series A Bonds, the District caused the issuance of \$4,500,000 principal amount of its Election of 2010 General Obligation Bonds, Series A-1 (Qualified School Construction Bonds – Direct Payment to District) (Federally Taxable) (the “2010 Series A-1 Bonds”). On May 10, 2012 the District caused the issuance of \$15,000,000 principal amount of its Election of 2010 General Obligation Bonds, Series B (the “2010 Series B Bonds”). On October 22, 2013, the District caused the issuance of \$15,000,983.30 principal amount of its 2010 Series C Bonds. On July 17, 2014, the District caused the issuance of \$4,835,000 principal amount of its Election of 2010 General Obligation Bonds, Series D (the “2010 Series D Bonds”).

On January 11, 2017, the District issued \$5,730,000 principal amount of its 2017 Refunding Bonds to refund a portion of the then-outstanding 2010 Series A Bonds. On October 22, 2019, the District issued \$22,142,031.60 principal amount of its 2019 Refunding Bonds to defease and refund the then-outstanding 2010 Series C Bonds.

2016 Authorization. Pursuant to the 2016 Authorization, at an election held on June 7, 2016, by at least 55% of the votes cast by eligible voters within the District, the District received authorization to issue

\$67,400,000 aggregate principal amount of general obligation bonds. On January 11, 2017, the District caused the issuance of \$25,000,000 principal amount of its Election of 2016 General Obligation Bonds, Series A (the “2016 Series A Bonds”). On August 30, 2018, the District caused the issuance of \$30,000,000 principal amount of its Election of 2016 General Obligation Bonds, Series B (the “2016 Series B Bonds”). On May 16, 2019, the District caused the issuance of the third and final series of bonds pursuant to the 2016 Authorization in the principal amount of \$12,400,000, designated as Election of 2016 General Obligation Bonds, Series C (the “2016 Series C Bonds”).

Waiver of Bonded Indebtedness Limit Applicable to 2016 Authorization. California Education Code Sections 15102 and 15268 limit the District’s total general obligation bonded indebtedness applicable to the 2016 Authorization, to 1.25 percent of the District’s taxable property. In order to authorize the issuance of the 2016 Series C Bonds in excess of the 1.25 percent limit, the District sought a waiver of such limit from the California Department of Education, as authorized by California Education Code Section 33050. In response to the District’s application, the California State Board of Education, granted on behalf of the District, a waiver of the afore-described 1.25 percent limitation and established an alternate, increased limitation applicable to the District’s 2016 Authorization at the rate of 1.55 percent.

2020 Authorization. Pursuant to the 2020 Authorization, at an election held on March 3, 2020, by at least 55% of the votes cast by eligible voters within the District, the District received authorization to issue \$80,000,000 aggregate principal amount of general obligation bonds. The Bonds are the first issuance of bonds under the 2020 Authorization.

The tables below and on the following pages summarize the District’s annual debt service requirements for all outstanding general obligation bonds of the District, broken down by authorization.

**OUTSTANDING GENERAL OBLIGATION BONDED DEBT SERVICE – 2001 AUTHORIZATION
Franklin-McKinley School District**

Year Ending (August 1)	2001 Series A Bonds	2006 Refunding Bonds	Total
2020	\$1,250,000.00	\$568,600.00	\$1,818,600.00
2021	1,250,000.00	642,600.00	1,892,600.00
2022	1,250,000.00	627,350.00	1,877,350.00
2023	--	1,141,337.50	1,141,337.50
2024	--	1,262,500.00	1,262,500.00
2025	--	1,460,000.00	1,460,000.00
2026	--	1,604,375.00	1,604,375.00
2027	--	1,357,725.00	1,357,725.00
TOTAL	\$3,750,000.00	\$8,664,487.50	\$12,414,487.50

Source: Franklin-McKinley School District.

**OUTSTANDING GENERAL OBLIGATION BONDED DEBT SERVICE – 2004 AUTHORIZATION
Franklin-McKinley School District**

Year Ending (August 1)	2014 Refunding Bonds	2015 Refunding Bonds	2017 Refunding Bonds	2018 Refunding Bonds	Total
2020	\$848,950.00	\$590,825.00	\$36,800.00	\$472,500.00	\$1,949,075.00
2021	889,000.00	591,225.00	36,800.00		1,517,025.00
2022	935,000.00	591,425.00	231,800.00		1,758,225.00
2023	995,000.00	591,425.00	275,950.00		1,862,375.00
2024	1,050,000.00	591,225.00	268,600.00		1,909,825.00
2025	--	1,060,825.00	358,800.00		1,419,625.00
2026	--	1,096,425.00	--		1,096,425.00
2027	--	1,057,925.00	--		1,057,925.00
2028	--	1,189,675.00	--		1,189,675.00
2029	--	1,293,175.00	--		1,293,175.00
2030	--	2,932,706.26	--		2,932,706.26
2031	--	3,026,743.76	--		3,026,743.76
2032	--	3,146,400.00	--		3,146,400.00
TOTAL	\$4,717,950.00	\$17,760,000.02	\$1,208,750.00	\$472,500.00	\$24,159,200.02

Source: Franklin-McKinley School District.

**OUTSTANDING GENERAL OBLIGATION BONDED DEBT SERVICE – 2010 AUTHORIZATION
Franklin-McKinley School District**

Year Ending (August 1)	2010 Series A Bonds	2010 Series A-1 Bonds ⁽¹⁾	2010 Series B Bonds	2010 Series D Bonds	2017 Refunding Bonds	2019 Refunding Bonds	Total
2020	\$693,250.00	\$247,050.00	\$1,058,812.50	\$348,012.50	\$211,800.00	\$425,899.70	\$2,984,824.70
2021	1,114,375.00	247,050.00	715,062.50	323,662.50	215,150.00	549,548.00	\$3,164,848.00
2022	1,186,875.00	247,050.00	723,062.50	318,662.50	213,350.00	549,548.00	\$3,238,548.00
2023	--	247,050.00	755,062.50	332,412.50	1,411,550.00	549,548.00	\$3,295,623.00
2024	--	247,050.00	1,135,062.50	330,162.50	146,150.00	549,548.00	\$2,407,973.00
2025	--	247,050.00	199,062.50	342,662.50	149,350.00	549,548.00	\$1,487,673.00
2026	900,000.00	4,623,525.00	199,062.50	345,862.50	152,850.00	549,548.00	\$6,770,848.00
2027	2,325,000.00	--	199,062.50	353,662.50	151,200.00	549,548.00	\$3,578,473.00
2028	2,600,000.00	--	199,062.50	352,812.50	149,550.00	549,548.00	\$3,850,973.00
2029	2,700,000.00	--	199,062.50	346,562.50	152,900.00	549,548.00	\$3,948,073.00
2030	2,014,922.18	--	849,062.50	290,062.50	151,100.00	549,548.00	\$3,854,695.18
2031	2,333,776.16	--	774,687.50	284,625.00	149,300.00	549,548.00	\$4,091,936.66
2032	2,645,000.00	--	477,187.50	279,187.50	152,425.00	549,548.00	\$4,103,348.00
2033	3,005,902.40	--	325,000.00	273,750.00	150,312.50	549,548.00	\$4,304,512.90
2034	1,189,998.88	--	452,600.00	268,312.50	1,948,200.00	549,548.00	\$4,408,659.38
2035	2,210,000.00	--	469,800.00	327,875.00	717,587.50	549,548.00	\$4,274,810.50
2036	--	--	2,750,800.00	616,587.50	--	1,389,548.00	\$4,756,935.50
2037	--	--	--	1,494,550.00	--	3,467,416.00	\$4,961,966.00
2038	--	--	--	--	--	3,007,292.50	\$3,007,292.50
2039	--	--	--	--	--	3,150,862.50	\$3,150,862.50
2040	--	--	--	--	--	3,261,727.50	\$3,261,727.50
2041	--	--	--	--	--	4,495,725.00	\$4,495,725.00
2042	--	--	--	--	--	4,776,448.32	\$4,776,448.32
2043	--	--	--	--	--	5,279,767.99	\$5,279,767.99
2044	--	--	--	--	--	3,770,000.00	\$3,770,000.00
TOTAL	\$24,919,099.62	\$6,105,825.00	\$11,481,512.50	\$7,229,425.00	\$6,222,775.00	\$41,267,907.51	\$97,226,544.63

(1) The 2010 Series A-1 Bonds are designated as “Qualified School Construction Bonds” pursuant to an irrevocable election by the District to have Sections 54F and Section 6431 of the Code, as amended by the Hiring Incentives to Restore Employment Act of 2010, apply thereto. The District expects to receive a cash subsidy payment from the United States Department of the Treasury equal to the interest payable on such bonds on or about each semi-annual interest payment date (each a “Subsidy Payment”). This table reflects gross debt service payments with respect to the 2010 Series A-1 Bonds and does not reflect the anticipated receipt of the Subsidy Payments. The Subsidy Payments are subject to reduction (the “Sequestration Reduction”) pursuant to the federal Balanced Budget and Emergency Deficit Control Act of 1985, as amended, which includes provisions reducing the Subsidy Payments by 5.9% during the federal fiscal year ending September 30, 2020. In the absence of action by the U.S. Congress, the rate of the Sequestration Reduction is subject to change in the following federal fiscal year. The District cannot predict whether or how subsequent sequestration actions may affect Subsidy Payments currently scheduled for receipt in future federal fiscal years. However, notwithstanding any such reduction, the County Board of Supervisors is empowered and obligated to levy ad valorem property taxes in an amount sufficient to pay the principal of and interest on the 2010 Series A-1 Bonds. The County will deposit any cash Subsidy Payments received into the debt service fund for the 2010 Series A-1 Bonds.

Source: Franklin-McKinley School District.

**OUTSTANDING GENERAL OBLIGATION BONDED DEBT SERVICE – 2016 AUTHORIZATION
Franklin-McKinley School District**

Year Ending (August 1)	2016 Series A Bonds	2016 Series B Bonds	2016 Series C Bonds	Total
2020	\$1,377,806.26	\$1,106,093.76	\$477,600.00	\$2,961,500.02
2021	753,806.26	1,106,093.76	1,427,600.00	3,287,500.02
2022	753,806.26	1,106,093.76	1,339,100.00	3,199,000.02
2023	753,806.26	1,341,093.76	947,400.00	3,042,300.02
2024	753,806.26	1,356,693.76	1,031,400.00	3,141,900.02
2025	1,103,806.26	1,386,293.76	751,200.00	3,241,300.02
2026	1,139,806.26	1,424,293.76	786,200.00	3,350,300.02
2027	1,173,806.26	1,480,293.76	804,200.00	3,458,300.02
2028	1,170,806.26	1,543,493.76	855,800.00	3,570,100.02
2029	1,227,206.26	1,603,493.76	854,600.00	3,685,300.02
2030	1,266,006.26	1,675,293.76	862,600.00	3,803,900.02
2031	1,318,156.26	1,773,293.76	839,400.00	3,930,850.02
2032	1,367,375.00	1,999,293.76	691,200.00	4,057,868.76
2033	1,423,487.50	2,067,793.76	698,000.00	4,189,281.26
2034	1,482,000.00	2,143,293.76	698,800.00	4,324,093.76
2035	1,546,000.00	2,218,918.76	703,800.00	4,468,718.76
2036	1,506,000.00	2,299,231.26	807,800.00	4,613,031.26
2037	1,466,000.00	2,485,481.26	811,800.00	4,763,281.26
2038	1,596,000.00	2,674,093.76	649,600.00	4,919,693.76
2039	1,619,200.00	2,762,268.76	697,800.00	5,079,268.76
2040	1,694,600.00	2,805,212.50	743,200.00	5,243,012.50
2041	1,770,000.00	2,844,275.00	800,800.00	5,415,075.00
2042	1,855,200.00	2,841,500.00	--	4,696,700.00
2043	1,939,600.00	2,949,250.00	--	4,888,850.00
2044	2,028,000.00	2,950,500.00	--	4,978,500.00
TOTAL	\$34,086,087.62	\$49,943,637.70	\$18,279,900.00	\$102,309,625.32

Source: Franklin-McKinley School District.

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**OUTSTANDING GENERAL OBLIGATION BONDED DEBT SERVICE – 2020 AUTHORIZATION
Franklin-McKinley School District**

<u>Year</u> <u>Ending</u> <u>(August 1)</u>	<u>2020 Series A</u> <u>Bonds</u>
	\$

TOTAL \$ _____
Source: Franklin-McKinley School District.

**OUTSTANDING GENERAL OBLIGATION BONDED DEBT SERVICE –
ALL AUTHORIZATIONS
Franklin-McKinley School District**

Year Ending (August 1)	2001 Authorization Bonds	2004 Authorization Bonds	2010 Authorization Bonds ⁽¹⁾	2016 Authorization Bonds	2020 Authorization Bonds	Total
2020	\$1,818,600.00	\$3,875,650.00	\$2,984,824.70	\$2,961,500.02	\$	\$
2021	1,892,600.00	1,517,025.00	\$3,164,848.00	3,287,500.02		
2022	1,877,350.00	1,758,225.00	\$3,238,548.00	3,199,000.02		
2023	1,141,337.50	1,862,375.00	\$3,295,623.00	3,042,300.02		
2024	1,262,500.00	1,909,825.00	\$2,407,973.00	3,141,900.02		
2025	1,460,000.00	1,419,625.00	\$1,487,673.00	3,241,300.02		
2026	1,604,375.00	1,096,425.00	\$6,770,848.00	3,350,300.02		
2027	1,357,725.00	1,057,925.00	\$3,578,473.00	3,458,300.02		
2028	--	1,189,675.00	\$3,850,973.00	3,570,100.02		
2029	--	1,293,175.00	\$3,948,073.00	3,685,300.02		
2030	--	2,932,706.26	\$3,854,695.18	3,803,900.02		
2031	--	3,026,743.76	\$4,091,936.66	3,930,850.02		
2032	--	3,146,400.00	\$4,103,348.00	4,057,868.76		
2033	--	--	\$4,304,512.90	4,189,281.26		
2034	--	--	\$4,408,659.38	4,324,093.76		
2035	--	--	\$4,274,810.50	4,468,718.76		
2036	--	--	\$4,756,935.50	4,613,031.26		
2037	--	--	\$4,961,966.00	4,763,281.26		
2038	--	--	\$3,007,292.50	4,919,693.76		
2039	--	--	\$3,150,862.50	5,079,268.76		
2040	--	--	\$3,261,727.50	5,243,012.50		
2041	--	--	\$4,495,725.00	5,415,075.00		
2042	--	--	\$4,776,448.32	4,696,700.00		
2043	--	--	\$5,279,767.99	4,888,850.00		
2044	--	--	\$3,770,000.00	4,978,500.00		
TOTAL	\$12,414,487.50	\$26,085,775.02	\$97,226,544.63	\$102,309,625.32		

⁽¹⁾ The 2010 Series A-1 Bonds are designated as “Qualified School Construction Bonds” pursuant to an irrevocable election by the District to have Sections 54F and Section 6431 of the Code, as amended by the Hiring Incentives to Restore Employment Act of 2010, apply thereto. The District expects to receive a cash subsidy payment from the United States Department of the Treasury equal to the interest payable on such bonds on or about each semi-annual interest payment date (each a “Subsidy Payment”). This table reflects gross debt service payments with respect to the 2010 Series A-1 Bonds and does not reflect the anticipated receipt of the Subsidy Payments. The Subsidy Payments are subject to reduction (the “Sequestration Reduction”) pursuant to the federal Balanced Budget and Emergency Deficit Control Act of 1985, as amended, which includes provisions reducing the Subsidy Payments by 5.9% during the federal fiscal year ending September 30, 2020. In the absence of action by the U.S. Congress, the rate of the Sequestration Reduction is subject to change in the following federal fiscal year. The District cannot predict whether or how subsequent sequestration actions may affect Subsidy Payments currently scheduled for receipt in future federal fiscal years. However, notwithstanding any such reduction, the County Board of Supervisors is empowered and obligated to levy *ad valorem* property taxes in an amount sufficient to pay the principal of and interest on the 2010 Series A-1 Bonds. The County will deposit any cash Subsidy Payments received into the debt service fund for the 2010 Series A-1 Bonds.

Source: Franklin-McKinley School District.

TAX MATTERS

Tax-Exempt Bonds. In the opinion of Parker & Covert LLP, Sacramento, California (“Bond Counsel”), based upon an analysis of existing statutes, regulations, rulings and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is exempt from State of California personal income tax.

The difference between the issue price of a Tax-Exempt Bond (the first price at which a substantial amount of the Tax-Exempt Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Tax-Exempt Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Owner will increase the Owner’s basis in the Tax-Exempt Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the Tax-Exempt Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and original issue discount) on the Tax-Exempt Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Tax-Exempt Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Bonds. The District has covenanted to comply with all such requirements.

The amount by which an Owner’s original basis for determining loss on sale or exchange in the applicable Tax-Exempt Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Tax-Exempt Bond premium, which must be amortized under Section 171 of the Code; such amortizable Tax-Exempt Bond premium reduces the Owner’s basis in the applicable Tax-Exempt Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Tax-Exempt Bond premium may result in an Owner realizing a taxable gain when a Tax-Exempt Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Tax-Exempt Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Tax-Exempt Bond premium.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Tax-Exempt Bonds will be selected for audit by the IRS. It is also possible that the market value of the Tax-Exempt Bonds might be affected as a result of such an audit of the Tax-Exempt Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Tax-Exempt Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Tax-Exempt Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE TAX-EXEMPT BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE TAX-EXEMPT BONDS OR THE MARKET VALUE OF THE TAX-EXEMPT BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS SUCH AS THE TAX-EXEMPT BONDS. THE INTRODUCTION OR ENACTMENT OF ANY SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE TAX-EXEMPT BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE TAX-EXEMPT BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE TAX-EXEMPT BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE TAX-EXEMPT BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The District Resolution, Paying Agent Agreement and the Tax Certificate relating to the Tax-Exempt Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Tax-Exempt Bonds for federal income tax purposes with respect to any Tax-Exempt Bond if any such action is taken or omitted based upon the advice of counsel other than Parker & Covert LLP.

Although Bond Counsel has rendered an opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Tax-Exempt Bonds and the accrual or receipt of interest (and original issue discount) on the Tax-Exempt Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Tax-Exempt Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Tax-Exempt Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix A.

Federally Taxable Bonds. Interest on the Federally Taxable Bonds, including accrued original issue discount, is includible in gross income for federal income purposes. Ownership of the Federally Taxable Bonds may result in other federal income tax consequences to certain taxpayers. Bondholders should consult their tax advisors with respect to the inclusion of interest on the Federally Taxable Bonds in gross income for federal income tax purposes and any collateral tax consequences. In the further opinion of Bond Counsel, interest on the Federally Taxable Bonds is exempt from State of California personal income tax.

Other Tax Considerations. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the Bonds, the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

LIMITATION ON REMEDIES; BANKRUPTCY

General. State law contains certain safeguards to protect the financial solvency of school districts. See “District Financial Information – Budget Process” herein. If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent, operating through an administrator appointed by the State Superintendent, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”) on behalf of the school district for the adjustment of its debts, assuming that the school district meets certain other requirements contained in the Bankruptcy Code necessary for filing a petition under Chapter 9. School districts are not themselves authorized to file a bankruptcy proceeding, and they are not subject to involuntary bankruptcy.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the automatic stay provisions of Bankruptcy Code Sections 362 and 922 generally would prohibit creditors from taking any action to collect amounts due from the District or to enforce any obligation of the District related to such amounts due, without consent of the District or authorization of the bankruptcy court (although such stays may not operate to block creditor application of pledged special revenues to payment of indebtedness secured by such revenues (see *Special Revenues* below)). In addition, as part of its plan of adjustment in a Chapter 9 bankruptcy case, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable. There also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

Statutory Lien. Pursuant to Section 53515 of the Government Code, the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax, and such lien automatically arises, without the need for any action or authorization by the local agency or its governing board, and is valid and binding from the time the Bonds are executed and delivered. See “The Bonds – Security and Sources of Payment” herein. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the District, the automatic stay provisions of the Bankruptcy Code may not apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed (see *Special Revenues* below), unless the Bonds are determined to be secured by a pledge of “special revenues” within the meaning of the Bankruptcy Code and the pledged *ad valorem* taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code.

Special Revenues. If the *ad valorem* tax revenues that are pledged to the payment of the Bonds are determined to be “special revenues” within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged *ad valorem* revenues should not be subject to the automatic stay. “Special revenues” are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. State law prohibits the use of the tax proceeds for any purpose other than payment of the Bonds and the Bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition, so such tax revenues appear to fit the definition of special revenues.

The United States Court of Appeals for the First Circuit (the “First Circuit Court”) issued an opinion, on March 26, 2019, in a case brought by bond insurers relating to bonds issued by the Puerto Rico

Highway and Transportation Authority (the “HTA Bonds”) that were the subject of bankruptcy proceedings. The bond insurers argued that the HTA Bonds were secured by “special revenues” and as such, the Puerto Rico Highway and Transportation Authority was required to remit payment of the special revenues during the pendency of the bankruptcy proceedings. The First Circuit Court affirmed the lower court’s dismissal of the bond insurers’ complaint. More specifically, the First Circuit Court ruled that Section 928(a) and 922(d) of the Bankruptcy Code permit, but do not require, continued payment during the ongoing bankruptcy proceedings. According to the First Circuit Court, the Bankruptcy Code presumes that any consensual prepetition lien secured by special revenues will survive the period of municipal bankruptcy, and, accordingly, municipalities can elect to voluntarily continue payment on such debts during the course of the bankruptcy proceedings so as to not fall behind and thus be at risk of being unable to secure financing in the future. This First Circuit Court decision is not binding on the District and no assurance can be given that a federal court with jurisdiction over the District would not hold otherwise.

Possession of Tax Revenues; Remedies. The County on behalf of the District is expected to be in possession of the annual *ad valorem* property taxes and certain funds to repay the Bonds and may invest these funds in the County Investment Pool, as described in “THE BONDS – Application and Investment of Bond Proceeds” herein and “Appendix E – Santa Clara County Investment Pool” attached hereto. If the County goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County does not voluntarily pay such tax revenues to the owners of the Bonds, it is not entirely clear what procedures the owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Further, should those investments suffer any losses, there may be delays or reductions in payments on the Bonds.

Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor’s Rights. The proposed form of the approving opinion of Bond Counsel attached hereto as Appendix A is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor’s rights. Bankruptcy proceedings, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

LEGAL MATTERS

Legality for Investment in California

Under provisions of the State Financial Code, the Bonds are legal investments for commercial banks in the State to the extent that the Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the State Government Code, are eligible for security for deposits of public moneys in the State.

Expanded Reporting Requirements

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (“TIPRA”). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and

backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

Continuing Disclosure

The District has engaged Isom Advisors, a Division of Urban Futures, Inc., to assist it in carrying out its continuing disclosure obligations.

Current Undertaking. The District has covenanted for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than nine months following the end of the District’s fiscal year (which currently ends June 30), commencing with the report for the 2019-20 fiscal year, and to provide notices of the occurrence of certain listed events. The Annual Report and notices of listed events will be filed by the District in accordance with the requirements of the Rule. The specific nature of the information to be contained in the Annual Report or the notices of listed events is included in “Appendix C – FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

Prior Undertakings. The District was late in filing its Annual Report for the 2017-18 fiscal year. Other than this late filing, in the past five years, the District has complied in all respects with its previous continuing disclosure undertakings pursuant to the Rule to provide annual reports and notices of enumerated events.

No Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District’s ability to receive *ad valorem* property taxes or to collect other revenues or contesting the District’s ability to issue and retire the Bonds.

Financial Statements

The financial statements with supplemental information for the year ended June 30, 2019, the independent auditor’s report of the District, and the related statements of activities and of cash flows for the year then ended, and the report dated October 24, 2019 of Eide Bailly, LLP (the “Auditor”), are included in this Official Statement as Appendix B. In connection with the inclusion of the financial statements and the report of the Auditor herein, the District did not request the Auditor to, and the Auditor has not undertaken to, update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

Legal Opinion

The legal opinion of Bond Counsel, approving the validity of the Bonds, will be supplied to the original purchasers of the Bonds without cost. A copy of the proposed form of such legal opinion is attached to this Official Statement as Appendix A.

MISCELLANEOUS

Rating

The Bonds have been assigned a rating of “Aa3” by Moody’s Investors Service. The rating reflects only the views of the rating agency, and any explanation of the significance of such rating should be obtained from the rating agencies at the following addresses: Moody’s Investors Service, 7 World Trade Center at 250 Greenwich, New York, NY 10007. There is no assurance that the rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agencies if, in the judgment of the rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Bonds.

The District has covenanted in a Continuing Disclosure Certificate to file on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access website (“EMMA”) notices of any rating changes on the Bonds. See “Appendix C – Form of Continuing Disclosure Certificate” attached hereto. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date the District is obligated to file a notice of rating change on EMMA. Purchasers of the Bonds are directed to the rating agency and its respective website and official media outlets for the most current rating changes with respect to the Bonds after the initial issuance of the Bonds.

Underwriting

Raymond James & Associates, Inc. (the “Underwriter”) has agreed, pursuant to a purchase contract by and between the District and the Underwriter, to purchase all of the Bonds for a purchase price of \$ _____ (consisting of the principal amount of the Bonds of \$[PAR AMOUNT], and less the Underwriter’s discount of \$ _____).

The purchase contract for the Bonds provide that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by bond counsel and certain other conditions. The initial offering prices stated on the inside cover pages of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than such initial offering prices.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from and summaries and explanations of the Bonds, the Paying Agent Agreement providing for issuance of the Bonds, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Certain of the data contained herein has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the District.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended only as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners, beneficial or otherwise, of any of the Bonds.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

By: _____
Assistant Superintendent, Business Services

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**APPENDIX A
FORM OF OPINION OF BOND COUNSEL**

Board of Education
Franklin-McKinley School District
645 Wool Creek Drive
San Jose, California 95112

Re: \$[PAR AMOUNT]
 Franklin-McKinley School District
 (Santa Clara County, California)
 Election of 2020 General Obligation Bonds
 Series A
 Final Opinion of Bond Counsel

Members of the Board of Education:

We have acted as bond counsel in connection with the issuance by the Franklin-McKinley School District (the “District”) of \$[PAR AMOUNT] principal amount of Franklin-McKinley School District (Santa Clara County, California) Election of 2020 General Obligation Bonds, Series A (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and executed by the District and are valid and binding general obligations of the District.

2. All taxable property in the territory of the District is subject to *ad valorem* taxation without limitation regarding rate or amount (except certain personal property that is taxable at limited rates) to pay the Bonds. Santa Clara County is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent that necessary funds are not provided from other sources.

3. Interest on the Bonds maturing on or after August 1, 2021 (the “Tax-Exempt Bonds”) is excludable from gross income for federal tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has

covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Tax-Exempt Bonds to be included in gross income for federal tax purposes retroactively to the date of issuance of the Tax-Exempt Bonds.

4. Interest on the Bonds is exempt from State of California personal income taxation.

The rights of the owners of the Bonds and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding the accuracy, adequacy, or completeness of the Official Statement or other offering material relating to the Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PARKER & COVERT LLP

APPENDIX B
2018-2019 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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Annual Financial Report
June 30, 2019

Franklin-McKinley
School District

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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, 2019, 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 *2018-2019 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, 2019, 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 the 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 non-major 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 October 24, 2019, 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Palo Alto, California
October 24, 2019

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

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, 2019. 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 called the "Supplemental Grant" and "Concentration Grant".

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, 2019

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 reached in 2018-2019.

The District converted Fair Middle School to Bridges Academy as a dependent charter school in 2010-2011. For 2018-2019, the Unduplicated Pupil Percentage is 82.45% for Franklin-McKinley School District and 87.25% for Bridges Academy. The actual P2 ADA is 6,974 includes 330 from Bridges Academy and 40 from COE Special Education program. Due to decline enrollment, the total funded ADA is 7,282 includes Bridges Academy and COE Special Education Program. The combination resulted in total LCFF revenue of \$77.87 million in the General Fund revenues for fiscal year 2018-2019.

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, 2019, the District's available reserves totaled consisting of \$10,564,823 in unassigned fund balance and \$4,965,403 reserved for economic uncertainties. This reserve amount is equal to 15.07% 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, 2019

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, 2019

THE DISTRICT AS A WHOLE

Net Position

(Amounts in millions)	Governmental Activities	
	2019	2018
Assets		
Current and other assets	\$ 84.4	\$ 56.1
Capital assets	174.1	163.3
Total Assets	258.5	219.4
Deferred Outflows of Reserves		
Deferred charge on refunding	1.9	2.2
Deferred outflow related to pension	29.5	30.2
Total Deferred Outflows	31.4	32.4
Liabilities		
Current liabilities	15.2	14.8
Current portion of long-term debt	8.3	7.4
Long-term debt	271.7	227.8
Total Liabilities	295.2	250.0
Deferred Inflows of Reserves		
Deferred inflow related to pension	9.2	10.0
Net Position		
Net investment in capital assets	40.5	49.4
Restricted	17.8	14.1
Unrestricted	(72.8)	(71.7)
Total Net Position	\$ (14.5)	\$ (8.2)

The District's net position was a deficit \$14.5 million and a deficit of \$8.2 million as of June 30, 2019, and 2018, respectively. Of these amounts, negative \$72.8 and negative \$71.7 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 \$72.8 million and negative \$71.7 million for fiscal years 2018-2019 and 2017-2018 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 \$72.8 million and \$71.7 million left from governmental activities for fiscal years 2018-2019 and 2017-2018, respectively.

Current assets and current liabilities in 2018-2019 increased by \$28.3 million and increased by \$0.4 million, respectively, from 2017-2018.

Capital assets increased by \$10.8 million. The increase is due to the issuing of Measure H bond Series B and Series C during 2018-2019 and the various Bond projects currently in process around the District including the California Clean Energy – Lighting upgrades, District Technology – Design of structured cabling and network infrastructure, Lairon College Preparatory Academy Modernization and Windmill Modernization.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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 \$133.7 and \$123.1 million for 2018-2019 and 2017-2018, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other unrestricted revenue sources was only \$96.0 and \$90.8 million for 2018-2019 and 2017-2018. This is approximately 72% and 74% of the total expenses in 2018-2019 and 2017-2018, respectively. The cost paid by those who benefited from the programs was \$0.3 and \$0.1 million for 2018-2019 and 2017-2018. The program cost subsidized by other governments and organizations with grants and contributions of \$18.0 and \$17.6 million for 2018-2019 and 2017-2018 respectively.

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

- Instruction expenditures include activities directly dealing with the teaching of pupils.
- Instruction-related services include the activities involved with assisting staff with the content and process of educating students.
- Pupil services include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.
- Administration reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services personnel.
- Plant services involve keeping the school grounds, buildings, and equipment in effective working condition.
- Enterprise services are costs generated from performing fee based services.
- Other includes tuitions and transfers of resources between the District and other educational agencies for services provided to students.

(Amounts in millions)	Governmental Activities	
	2019	2018
Revenues		
Charges for services	\$ 0.3	\$ 0.1
Operating grants and contributions	18.0	17.6
Capital contributions	-	0.5
General revenues:		
Property tax, federal revenue and state apportionment	96.0	90.8
Other general revenues	13.0	6.9
Total Revenues	127.3	115.9
Expenses		
Instruction related	91.0	88.0
Pupil services	12.3	11.1
Administration	8.4	7.2
Plant services	10.2	9.5
Enterprise services	1.6	0.2
Debt Service	9.5	6.3
Other	0.7	0.8
Total Expenses	133.7	123.1
Change in Net Position	(6.4)	(7.2)
Net Position - Beginning	-	(1.0)
Net Position - Ending	\$ (6.4)	\$ (8.2)

(Amounts in millions)	Net Cost	
	2019	2018
Instruction	\$ 77.0	\$ 62.9
Instruction related	14.3	12.9
Pupil services	12.3	5.8
Administration	8.4	6.7
Plant services	10.2	9.5
Enterprise services	1.6	0.2
Interest on long-term obligation	9.5	6.3
Other	0.7	0.6
Totals	\$ 134.0	\$ 104.9

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$70.8 million, which was an increase of \$28.2 million from last year. The primary reason for the increase is related to the new issuance of bonds in the building fund.

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 2018.

The District prepared the fiscal year 2018-2019 original adoption budget when the carryovers from fiscal year 2017-2018 were not known. The carryovers, however, were included in the fiscal year 2018-2019 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 2018-2019 adoption budget was prepared. At the end of the fiscal year, however, unspent revenues for some categorical programs will be deferred to the new fiscal year in accordance with generally accepted accounting principles and the requirements under the categorical programs. A schedule showing the District's original and final budget amounts compared with actual final amounts is provided in the required supplementary information, succeeding the financial statement section.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's net capital assets include land, buildings, furniture, and equipment. At June 30, 2019, the District had \$174.2 million in capital assets, representing a net increase of \$10.8 million over \$163.4 million in 2018.

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

Construction in Progress during 2018-2019:

- California Clean Energy – Lighting upgrades at ACE Esperanza Charter, Bridges Academy and Cornerstone Charter
- College Connection Academy (CCA) – Purchase of two portables
- District Technology – Design of structured cabling and network infrastructure
- Lairon College Preparatory Academy Modernization
- Windmill Modernization

Refer to Capital Assets Note 5 in the financial statements.

(Amounts in millions)	Governmental Activities	
	2019	2018
Capital Assets		
Land	\$ 1.6	\$ 1.6
Construction in progress	52.8	33.8
Buildings and improvements	195.6	195.6
Furniture and equipment	7.8	7.8
Total Assets	257.8	238.8
Accumulated Depreciation		
Buildings and improvements	79.8	71.9
Furniture and equipment	3.8	3.5
Total Accumulated Depreciation	83.6	75.4
Net Capital Assets		
Land	1.6	1.6
Construction in progress	52.8	33.8
Buildings and improvements	115.8	123.7
Furniture and equipment	4.0	4.3
Total	\$ 174.2	\$ 163.4

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

Long-Term Obligations

At the end of this year, the District had \$289.6 million in outstanding long-term liabilities versus \$235.2 million last year, an increase of \$54.4 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 requirements for accrual-basis recognition by state and local governments of employer costs and obligations for pensions. Under the accounting standards, if the present value of benefits earned by all employees participating in the CalSTRS or CalPERS pension plan exceeds the resources accumulated by the pension plan to benefits, LEAs must now report in their government wide financial statements their proportionate share of the plan's net pension liability. See Note 13 for more detailed information. At year-end, the District has a net pension liability of \$106.6 million versus \$101.2 million last year, and increase of \$4.9 million, or 5%.

Table 5

(Amounts in millions)	Governmental Activities	
	2019	2018
General obligation bonds	\$ 146.0	\$ 99.0
Accretion to date	9.5	8.9
Capital leases	14.0	14.7
Bond premium	5.9	3.9
Certificates of participation	3.3	3.7
Postemployment benefits	1.5	1.5
Accumulated vacation - net	0.4	0.4
Pension liabilities	106.6	101.7
Early retirement incentive	2.4	1.4
Totals	\$ 289.6	\$ 235.2

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.

One of the major components of State funding is the Local Control Funding Formula (LCFF). LCFF replaces the former Revenue Limit funding model, which had been the basis of funding for California school districts for approximately 40 years. At this point, the five-year-old LCFF is fully implemented financially. Achieving this full implementation of LCFF will result in the slowdown of growth funding in the future years. The annual increase to educational funding will rely entirely on the COLA which is projected to range between 2.7% to 3.3% annually over the next five years.

Unfortunately, LCFF funding growth does not provide enough to cover the annual increase in contributions to the CalSTRS and CalPERS 100%. This results in this District (as well as many other districts in the State of California) searching for other resources to cover this annual incremental increase in total expenditures as well as cover the increased expenditures from (i) step and column, (ii) inflation on supplies and services, (iii) health care premiums, and (iv) the new provisions under Family and Medical Leave Act.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2019

One of the major components of LCFF is enrollment. To help increase enrollment for the future the District has launched a Vietnamese dual immersion program during 2018-2019. It was so well received by the community that the District is planning on opening a Spanish dual immersion program in 2020-2021. We will monitor these programs to ensure success for our students, community, and District.

We also continue to thank our community for their support with our \$67.4 million Measure H Bond, which was approved by the community on June 7, 2016. The District has completed a number of projects since receiving this funding. Most recently, we have been able to modernize two more school sites: Lairon College Preparatory Academy and Windmill Springs Elementary. Upgrades included new windows, new classrooms with tackable walls, new tech infrastructure within each classroom, modernized HVAC systems to keep students and staff cool in the summer and warm in the winter, new carpet, hallway upgrades for natural lighting, parking lot upgraded including slurry and striping, new playground structures, new kitchen at Windmill, and more. We know these upgrades are vital to the success our students and we truly appreciate the communities support in this endeavor.

The District with the support of our community members also renewed a parcel tax – Measure HH on November 8, 2016 for another nine years. These funds help:

- Enhance academic programs in reading, math, and science
- Expand counseling and tutoring programs for at-risk students
- Improve student access to computers and modern technology
- Bring back performing arts and music programs for Kindergarten-6th grade
- Maintain small class sizes
- Maintaining or expanding performing arts and music programs

The Parcel Tax is assessed against each parcel of taxable land within the FMSD boundaries. A parcel is defined as any unit of land in the District that now receives a separate tax bill from the Santa Clara County Assessor's Office. Read the Resolution Calling an Election for Voter Approval of an Education Parcel Tax.

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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Jason Vann, Assistant Superintendent, Business Services, or 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, 2019

	Governmental Activities
ASSETS	
Deposits and investments	\$ 79,016,660
Receivables	4,284,319
Prepaid items	814,326
Stores inventories	54,500
Prepaid insurance cost	244,307
Capital assets not depreciated	54,383,816
Capital assets, net of accumulated depreciation	119,801,218
Total Assets	<u>258,599,146</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	1,902,491
Deferred outflows related to pensions	29,483,428
Total Deferred Outflows of Resources	<u>31,385,919</u>
LIABILITIES	
Accounts payable	9,569,374
Interest payable	2,752,120
Unearned revenue	2,812,792
Claims liability	89,492
Long-term obligations other than pensions:	
Current portion of long-term obligations other than pensions	8,344,742
Noncurrent portion of long-term obligations other than pensions	165,145,814
Aggregate net pension liability	106,597,677
Total Liabilities	<u>295,312,011</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	9,238,389
Total Deferred Inflows of Resources	<u>9,238,389</u>
NET POSITION	
Net investment in capital assets	40,473,403
Restricted for:	
Educational programs	1,947,496
Food services	471,319
Debt service	8,074,259
Capital projects	6,430,776
Self insurance programs	922,229
Unrestricted	(72,884,817)
Total Net Position	<u>\$ (14,565,335)</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 76,992,055	\$ 114,614	\$ 10,135,529	\$ (66,741,912)
Instruction-related activities:				
Supervision of instruction	2,613,245	1,059	601,804	(2,010,382)
Instructional library, media, and technology	1,169,190	-	394,985	(774,205)
School site administration	10,248,101	19,638	711,711	(9,516,752)
Pupil services:				
Home-to-school transportation	2,499,524	-	-	(2,499,524)
Food services	6,197,662	60,335	4,745,655	(1,391,672)
All other pupil services	3,563,810	22,336	682,983	(2,858,491)
Administration:				
Data processing	1,639,168	-	-	(1,639,168)
All other administration	6,723,374	3,264	511,105	(6,209,005)
Plant services	10,266,096	6,862	70,000	(10,189,234)
Enterprise services	1,634,912			(1,634,912)
Interest on long-term obligations	9,416,049	-	-	(9,416,049)
Other outgo	735,166	37,812	146,417	(550,937)
Total Governmental Activities	\$ 133,698,352	\$ 265,920	\$ 18,000,189	(115,432,243)
General revenues:				
				37,411,701
Property taxes, levied for general purposes				9,831,410
Property taxes, levied for debt service				1,508,707
Taxes levied for other specific purposes				44,243,431
Federal and state aid not restricted to specific purposes				797,928
Interest and investment earnings				2,211,397
Interagency revenues				13,018,153
Miscellaneous				
			Subtotal, General Revenues	109,022,727
Change in Net Position				(6,409,516)
Net Position - Beginning				(8,155,819)
Net Position - Ending				\$ (14,565,335)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Cafeteria Fund	Building Fund
ASSETS			
Deposits and investments	\$ 23,879,338	\$ 5,415	\$ 37,114,561
Receivables	3,133,300	909,687	170,047
Due from other funds	340,083	160	-
Prepaid items	627,802	2,000	-
Stores inventories	-	54,500	-
Total Assets	<u>\$ 27,980,523</u>	<u>\$ 971,762</u>	<u>\$ 37,284,608</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,441,361	\$ 160,360	\$ 3,959,790
Due to other funds	5,480	340,083	-
Unearned revenue	2,811,056	-	-
Total Liabilities	<u>8,257,897</u>	<u>500,443</u>	<u>3,959,790</u>
Fund Balances:			
Nonspendable	652,802	56,500	-
Restricted	1,947,496	414,819	33,324,818
Assigned	1,592,102	-	-
Unassigned	15,530,226	-	-
Total Fund Balances	<u>19,722,626</u>	<u>471,319</u>	<u>33,324,818</u>
Total Liabilities and Fund Balances	<u>\$ 27,980,523</u>	<u>\$ 971,762</u>	<u>\$ 37,284,608</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
\$ 10,792,311	\$ 6,407,036	\$ 78,198,661
34,068	33,339	4,280,441
-	-	340,243
-	-	629,802
-	-	54,500
<u>\$ 10,826,379</u>	<u>\$ 6,440,375</u>	<u>\$ 83,503,647</u>
\$ -	\$ 7,863	\$ 9,569,374
-	-	345,563
-	1,736	2,812,792
<u>-</u>	<u>9,599</u>	<u>12,727,729</u>
-	-	709,302
10,826,379	6,430,776	52,944,288
-	-	1,592,102
-	-	15,530,226
<u>10,826,379</u>	<u>6,430,776</u>	<u>70,775,918</u>
<u>\$ 10,826,379</u>	<u>\$ 6,440,375</u>	<u>\$ 83,503,647</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Total Fund Balance - Governmental Funds	\$ 70,775,918
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	\$ 257,747,725
Accumulated depreciation is	(83,562,691)
Net Capital Assets	<u>174,185,034</u>
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.	20,245,039
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.	244,307
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.	1,902,491
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.	(2,752,120)
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.	922,229
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:	
General obligation bonds	151,857,375
Certificates of participation	3,340,000
Capital leases	13,985,872
Early retirement incentives	2,351,611
Postemployment benefits	1,527,547
Compensated absences (vacations)	428,151
Net pension liability	<u>106,597,677</u>
Total Long-Term Obligations	(280,088,233)
Total Net Position - Governmental Activities	<u>\$ (14,565,335)</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, 2019**

	General Fund	Cafeteria Fund	Building Fund
REVENUES			
Local control funding formula	\$ 78,602,722	\$ -	\$ -
Federal sources	4,853,822	4,603,570	-
Other state sources	14,059,434	412,052	23,012
Other local sources	6,195,221	538,478	589,637
Total Revenues	<u>103,711,199</u>	<u>5,554,100</u>	<u>612,649</u>
EXPENDITURES			
Current			
Instruction	67,920,364	-	-
Instruction-related activities:			
Supervision of instruction	2,305,326	-	-
Instructional library, media and technology	1,031,220	-	-
School site administration	9,043,759	-	-
Pupil services:			
Home-to-school transportation	2,202,074	-	-
Food services	-	5,453,864	-
All other pupil services	3,144,684	-	-
Administration:			
Data processing	1,444,853	-	-
All other administration	4,793,144	289,363	-
Plant services	8,754,330	-	-
Other outgo	735,166	-	-
Capital outlays	76	-	19,483,140
Debt service			
Principal	1,193,181	-	-
Interest and other	485,788	-	369,926
Total Expenditures	<u>103,053,965</u>	<u>5,743,227</u>	<u>19,853,066</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>657,234</u>	<u>(189,127)</u>	<u>(19,240,417)</u>
Other Financing Sources (Uses)			
Proceeds from financing sources	523,590	-	44,058,926
Defeased bonded debt	-	-	(1,650,000)
Net Financing Sources (Uses)	<u>523,590</u>	<u>-</u>	<u>42,408,926</u>
NET CHANGE IN FUND BALANCES	<u>1,180,824</u>	<u>(189,127)</u>	<u>23,168,509</u>
Fund Balance - Beginning	18,541,802	660,446	10,156,309
Fund Balance - Ending	<u>\$ 19,722,626</u>	<u>\$ 471,319</u>	<u>\$ 33,324,818</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
\$ -	\$ -	\$ 78,602,722
231,239	-	9,688,631
56,158	4,147	14,554,803
9,860,182	2,239,713	19,423,231
<u>10,147,579</u>	<u>2,243,860</u>	<u>122,269,387</u>
-	-	67,920,364
-	-	2,305,326
-	-	1,031,220
-	-	9,043,759
-	-	2,202,074
-	-	5,453,864
-	-	3,144,684
-	-	1,444,853
-	-	5,082,507
-	-	8,754,330
-	-	735,166
-	132,473	19,615,689
5,900,000	320,000	7,413,181
4,303,678	99,750	5,259,142
<u>10,203,678</u>	<u>552,223</u>	<u>139,406,159</u>
<u>(56,099)</u>	<u>1,691,637</u>	<u>(17,136,772)</u>
2,382,459	-	46,964,975
-	-	(1,650,000)
<u>2,382,459</u>	<u>-</u>	<u>45,314,975</u>
2,326,360	1,691,637	28,178,203
8,500,019	4,739,139	42,597,715
<u>\$ 10,826,379</u>	<u>\$ 6,430,776</u>	<u>\$ 70,775,918</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, 2019

Net Change in Fund Balances of Governmental Funds \$ 28,178,203

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	\$ 19,289,974	
Depreciation expense	(8,463,908)	
Net Expense Adjustment		10,826,066

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	7,550,000	
Capital lease	1,193,181	
Certificates of participation	320,000	
Total Principal Payments		9,063,181

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	(319,193)	
Additional bond premium	(2,451,385)	
Amortization of bond premium	494,930	
Additional accreted interest	(45,571,690)	
Additional defeasance cost	54,945	
Amortization of defeasance cost	(340,652)	
Amortization of prepaid insurance on refunding	(13,862)	
Total Amortization And Changes In Interest Expenses		(48,146,907)

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2019**

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.	(523,590)
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.	(899,903)
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.	(8,094)
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.	(47,964)
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.	(4,897,932)
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.	47,424
Change in Net Position of Governmental Activities	<u>\$ (6,409,516)</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, 2019**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 817,999
Receivables	3,878
Due from other funds	5,320
Prepaid expenses	10,000
Other current assets	174,524
Total Current Assets	<u>1,011,721</u>
LIABILITIES	
Current Liabilities	
Claim liabilities	89,492
Total Current Liabilities	<u>89,492</u>
NET POSITION	
Restricted	922,229
Total Net Position	<u>\$ 922,229</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
In-District contribution	\$ 1,469,443
OPERATING EXPENSES	
Insurance and other	1,435,314
Operating Income	<u>34,129</u>
NONOPERATING REVENUES	
Interest income	<u>13,295</u>
Change in Net Position	47,424
Total Net Position - Beginning	874,805
Total Net Position - Ending	<u><u>\$ 922,229</u></u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 1,472,807
Cash payments for insurance claims	(1,359,164)
Net Cash Provided By Operating Activities	<u>113,643</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	13,295
Net Cash Provided By Investing Activities	<u>13,295</u>
Net Increase In Cash And Cash Equivalents	126,938
Cash and Cash Equivalents - Beginning	691,061
Cash and Cash Equivalents - Ending	<u>\$ 817,999</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 34,129
Changes in assets and liabilities	
Receivables	(1,548)
Due from other fund	4,912
Other current assets	78,319
Accounts payable	(2,169)
Net Cash Provided By Operating Activities	<u>\$ 113,643</u>

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	Student Body Agency Funds
ASSETS	
Deposits and investments	\$ 155,723
LIABILITIES	
Due to student groups	\$ 155,723

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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:

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

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

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

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.

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

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. 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

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.

Deposit and Investments

Investments held at June 30, 2019, 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. Deposit includes revolving cash and cash in banks.

Prepaid Expenditures (Expenses)

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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 acquisition cost 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.

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, 2019

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 deferred charges on refunding of debt and for pension related items.

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

Pensions

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

Fund Balances – Governmental Funds

As of June 30, 2019, 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, 2019

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, 2019

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.

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 This Fiscal Year

In November 2016, the 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 assets should recognize a liability based on the guidance in this Statement. The District has implemented the provisions of this Statement as of June 30, 2019. There was no material impact from adoption.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District has implemented the provisions of this Statement as of June 30, 2019. There was no material impact from adoption.

New Accounting Pronouncements Effective in Future Fiscal Years

In January 2017, the 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 the reporting periods beginning after December 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

In June 2017, the 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. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The District has not determined the effect of the statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged. The District has not determined the effect of the statement.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 78,198,661
Proprietary funds	817,999
Fiduciary funds	155,723
Total Deposits and Investments	<u>\$ 79,172,383</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$	172,014
Cash in revolving		25,000
Investments		<u>78,975,369</u>
Total Deposits and Investments	\$	<u><u>79,172,383</u></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. The pool is not registered with Stock Exchange Commission.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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, 2019 was \$79,188,602 and the weighted average maturity of the pool was 436 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, 2019

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, 2019, all of the District's investment is in the Santa Clara County Treasury.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2019, 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	\$ 1,613,378	\$ 827,747	\$ -	\$ -	\$ -	\$ 2,441,125	\$ -
State Government							
Categorical aid	449,347	52,582	-	-	-	501,929	-
Lottery	335,287	-	-	-	-	335,287	-
Local Government							
Interest	138,739	1,224	168,467	34,068	33,339	375,837	3,878
Other local	596,549	28,134	1,580	-	-	626,263	-
Total	<u>\$ 3,133,300</u>	<u>\$ 909,687</u>	<u>\$ 170,047</u>	<u>\$ 34,068</u>	<u>\$ 33,339</u>	<u>\$ 4,280,441</u>	<u>\$ 3,878</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 1,565,500	\$ -	\$ -	\$ 1,565,500
Construction in Progress	33,820,432	18,997,884	-	52,818,316
Total Capital Assets Not Being Depreciated	<u>35,385,932</u>	<u>18,997,884</u>	<u>-</u>	<u>54,383,816</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	195,591,673	-	-	195,591,673
Furniture and Equipment	7,784,148	292,090	304,002	7,772,236
Total Capital Assets Being Depreciated	<u>203,375,821</u>	<u>292,090</u>	<u>304,002</u>	<u>203,363,909</u>
Total Capital Assets	<u>238,761,753</u>	<u>19,289,974</u>	<u>304,002</u>	<u>257,747,725</u>
Less Accumulated Depreciation:				
Buildings and Improvements	71,882,030	7,908,937	-	79,790,967
Furniture and Equipment	3,520,755	554,971	304,002	3,771,724
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	<u>75,402,785</u>	<u>8,463,908</u>	<u>304,002</u>	<u>83,562,691</u>
	<u>\$ 163,358,968</u>	<u>\$ 10,826,066</u>	<u>\$ -</u>	<u>\$ 174,185,034</u>

Under the terms of agreement of the Certificates of Participations described in Note 10, 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	\$ 5,314,673
Supervision of instruction	180,395
Instructional library, media, and technology	80,830
School site administration	705,567
Home-to-school transportation	174,262
Food services	435,756
All other pupil services	245,546
All other general administration	401,254
Data processing	113,840
Plant maintenance and operations	694,850
Total Depreciation Expenses Governmental Activities	<u>\$ 8,463,908</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Interfund receivable and payable balances at June 30, 2019, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	General Fund	Cafeteria Fund	Self-Insurance Fund	
General Fund	\$ -	\$ 160	\$ 5,320	\$ 5,480
Cafeteria Fund	340,083	-	-	340,083
Total	<u>\$ 340,083</u>	<u>\$ 160</u>	<u>\$ 5,320</u>	<u>\$ 345,563</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 are a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the net investment in capital assets amount of \$40,473,403 includes the effect of deferring the recognition of loss from advance refunding. The \$1,902,491 balance of the deferred outflow of resources on refunding at June 30, 2019 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, 2019 consisted of the following:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Deferred charge on bond refunding	\$ 2,083,952	\$ 54,945	\$ 329,960	\$ 1,808,937
Deferred charge on COP refunding	104,246	-	10,692	93,554
Total	<u>\$ 2,188,198</u>	<u>\$ 54,945</u>	<u>\$ 340,652</u>	<u>\$ 1,902,491</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2019, consists of the following:

	General Fund	Cafeteria Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,915,319	\$ 150,326	\$ 3,947,725	\$ 7,863	\$ 7,021,233
State apportionment	1,124,833	-	-	-	1,124,833
Salaries and benefits	1,401,209	10,034	12,065	-	1,423,308
Total	<u>\$ 5,441,361</u>	<u>\$ 160,360</u>	<u>\$ 3,959,790</u>	<u>\$ 7,863</u>	<u>\$ 9,569,374</u>

NOTE 9 – UNEARNED REVENUE

Unearned revenue at June 30, 2019, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 160,055	\$ -	\$ 160,055
Other state	12,758	-	12,758
School facilities apportionment	-	1,736	1,736
Other local	2,638,243	-	2,638,243
Total	<u>\$ 2,811,056</u>	<u>\$ 1,736</u>	<u>\$ 2,812,792</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 10 – LONG-TERM OBLIGATIONS OTHER THAN PENSIONS

Long-Term Obligation Summary

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

	Balance July 1, 2018	Accretion / Additions	Deductions	Balance June 30, 2019	Due in One Year
General obligation bonds	\$ 107,957,838	\$ 45,571,690	\$ 7,550,000	\$ 145,979,528	\$ 5,469,988
Bond premiums	3,921,392	2,451,385	494,930	5,877,847	429,134
Certificates of participation	3,660,000	-	320,000	3,340,000	330,000
Capital leases	14,655,463	523,590	1,193,181	13,985,872	743,378
Accumulated vacation - net	420,057	8,094	-	428,151	428,151
Retiree health care benefit	1,479,583	113,149	65,185	1,527,547	76,032
Early retirement incentive	1,451,708	1,262,830	362,927	2,351,611	868,059
Total	<u>\$ 133,546,041</u>	<u>\$ 49,930,738</u>	<u>\$ 9,986,223</u>	<u>\$ 173,490,556</u>	<u>\$ 8,344,742</u>

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

Bonded Debt

Defeased Bonded Debt

In August 2018, the District issued \$1,590,000 in General Obligation Bonds (the “2018 Refunding Bonds”) with interest rate of 5 percent to advance refund a total of \$1,650,000 consisting \$400,000 of outstanding 2004 General Obligation Series B Bonds (the “2004 GO Series B Bonds”) and \$1,250,000 of 2008 General Obligation Refunding Bonds (the “2008 Refunding Bonds”) with interest rates ranging from 3.50 to 5 percent. The net proceeds of \$1,586,750 (after payment of \$3,250 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payment on the 2004 GO Series B Bonds and 2008 Refunding Bonds. As a result, the \$1.65 million of outstanding 2004 GO Series B Bonds and 2004 Refunding bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$54,945. This difference, reported in the accompanying financial statements as a deferred outflows of resources and will be charged to operations through the year 2020 using the effective-interest method. The district completed the advance refunding to reduce its total debt services payments over the next 3 years by \$194,016 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$162,281.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds	
				Outstanding July 1, 2018	Issued/ Accreted	Redeemed	Outstanding June 30, 2019
2002	2023	2.70-6.00%	\$ 8,999,326	\$ 5,487,581	\$ 237,497	\$ 1,100,000	\$ 4,625,078
2005	2019	3.50-5.00%	15,999,162	575,000	-	575,000	-
2006	2028	3.25-5.25%	6,950,000	6,825,000	-	80,000	6,745,000
2008	2033	3.50-4.00%	14,000,000	525,000	-	525,000	-
2009	2021	3.50-5.00%	7,340,000	2,175,000	-	2,175,000	-
2011	2036	5.25-11.98%	15,163,985	14,638,053	693,173	-	15,331,226
2012	2036	3.00-4.00%	15,000,000	10,100,000	-	1,000,000	9,100,000
2014	2045	5.00-6.40%	15,000,983	16,862,204	651,020	-	17,513,224
2015	2025	3.00-5.00%	4,690,000	4,690,000	-	-	4,690,000
2015	2038	3.00-5.00%	4,835,000	4,760,000	-	135,000	4,625,000
2016	2038	3.00-5.00%	13,425,000	13,100,000	-	105,000	12,995,000
2017	2045	3.00-4.00%	25,000,000	22,515,000	-	1,800,000	20,715,000
2017	2036	2.00-4.00%	5,730,000	5,705,000	-	55,000	5,650,000
2018	2044	3.00-4.00%	30,000,000	-	30,000,000	-	30,000,000
2018	2020	5.00%	1,590,000	-	1,590,000	-	1,590,000
2019	2041	3.00-4.00%	12,400,000	-	12,400,000	-	12,400,000
				<u>\$ 107,957,838</u>	<u>\$ 45,571,690</u>	<u>\$ 7,550,000</u>	<u>\$ 145,979,528</u>

Debt Service Requirements to Maturity

The bonds mature through fiscal year 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 5,469,988	\$ 5,716,794	\$ 11,186,782
2021	4,015,612	5,693,400.76	9,709,012.76
2022	4,375,518	5,612,056.76	9,987,574.76
2023	4,586,640	5,489,590.76	10,076,230.76
2024	4,852,685	4,491,107.76	9,343,792.76
2025-2029	22,809,460	24,178,438.80	46,987,898.80
2030-2034	24,768,533	23,726,022.80	48,494,555.80
2035-2039	26,522,709	23,637,955.30	50,160,664.30
2040-2044	29,937,773	20,424,373.88	50,362,146.88
2045-2046	9,145,000	218,875.00	9,363,875.00
Subtotal	136,483,918	\$ 119,188,616	\$ 255,672,534
Accretion to date	9,495,610		
Total	<u>\$ 145,979,528</u>		

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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, 2019, the remaining balance outstanding on the 2013 Refunding Lease is \$3,340,000.

The certificates mature through 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 330,000	\$ 90,487	\$ 420,487
2021	340,000	80,940	420,940
2022	350,000	71,108	421,108
2023	360,000	60,990	420,990
2024	375,000	50,516	425,516
2025-2029	1,585,000	91,984	1,676,984
Total	<u>\$ 3,340,000</u>	<u>\$ 446,025</u>	<u>\$ 3,786,025</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 capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Solar	Bus	Apple	Enterprise	Total
Balance, July 1, 2018	\$ 19,020,757	-	\$ 595,159	\$ 314,545	\$ 19,930,461
Additions	-	359,510	261,343	-	620,853
Payments	(1,105,630)	(71,902)	(482,849)	(82,847)	(1,743,228)
Balance, June 30, 2019	<u>\$ 17,915,127</u>	<u>\$ 287,608</u>	<u>\$ 373,653</u>	<u>\$ 231,698</u>	<u>\$ 18,808,086</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

These capital leases have minimum lease payments as follows:

Year Ending June 30,	Total
2020	\$ 1,267,806
2021	1,125,897
2022	1,128,217
2023	1,052,890
2024	1,030,049
2025-2029	5,894,598
2030-2034	7,308,629
Total	18,808,086
Less: Amount Representing Interest	(4,822,214)
Present Value of Minimum Lease Payments	<u>\$ 13,985,872</u>

Leased equipment under capital leases in capital assets at June 30, 2019, include the following:

Solar panels	\$ 15,610,000
Buses	329,252
Apple computers	2,125,218
Enterprise flees	368,817
Less: Accumulated depreciation	(6,502,831)
Total	<u>\$ 11,930,456</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2019, amounted to \$428,151.

Early Retirement Incentives

In 2018-2019, 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
2020	\$ 868,059
2021	615,493
2022	615,493
2023	252,566
Total	<u>\$ 2,351,611</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Retiree Health Care Benefits

The district provides retiree health care benefits, in accordance with District employment contracts, to three employees. The District contributes 100 percent of the amount of premiums incurred by the retirees. Expenditures for the benefits are recognized on a pay-as-you-go basis, as retiree's premiums are paid. During the year, expenditures of \$65,185 were recognized for retiree's health care benefits. The approximate accumulated future liability for the District at June 30, 2019, amounts to \$1,527,547. This amount was calculated based upon the three retirees receiving benefits multiplied by the District payment in effect at June 30, 2019, multiplied by the number of years of payments remaining, with health care cost trend rate of 8%.

These health care benefits mature through 2034 as follows:

Year ending June 30,	Medical Benefit Payments
2020	\$ 76,032
2021	82,114
2022	88,683
2023	95,777
2024	103,439
2025-2029	473,738
2030-2034	607,764
	<u>\$ 1,527,547</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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	-	54,500	-	-	-	54,500
Prepaid expenditures	627,802	2,000	-	-	-	629,802
Total Nonspendable	652,802	56,500	-	-	-	709,302
Restricted						
Educational programs	1,947,496	-	-	-	-	1,947,496
Food services	-	414,819	-	-	-	414,819
Capital projects	-	-	33,324,818	-	6,430,776	39,755,594
Debt services	-	-	-	10,826,379	-	10,826,379
Total Restricted	1,947,496	414,819	33,324,818	10,826,379	6,430,776	52,944,288
Assigned						
Program carryover	1,592,102	-	-	-	-	1,592,102
Total Assigned	1,592,102	-	-	-	-	1,592,102
Unassigned						
Reserve for economic uncertainties	4,965,403	-	-	-	-	4,965,403
Remaining unassigned	10,564,823	-	-	-	-	10,564,823
Total Unassigned	15,530,226	-	-	-	-	15,530,226
Total	\$ 19,722,626	\$ 471,319	\$ 33,324,818	\$ 10,826,379	\$ 6,430,776	\$ 70,775,918

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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, 2019, the District contracted with Santa Clara County Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

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

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

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Santa Clara County 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, 2019**

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, 2017 to June 30, 2019.

	Dental and Vision
Liability Balance, July 1, 2017	\$ 99,488
Claims and changes in estimates	1,392,246
Claims payments	(1,400,073)
Liability Balance, June 30, 2018	91,661
Claims and changes in estimates	1,433,145
Claims payments	(1,435,314)
Liability Balance, June 30, 2019	\$ 89,492
Assets available to pay claims at June 30, 2019	\$ 1,011,721

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, 2019, 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	\$ 75,271,657	\$ 20,777,839	\$ 9,238,389	\$ 8,266,372
CalPERS	31,326,020	8,705,589	-	6,448,151
Total	\$ 106,597,677	\$ 29,483,428	\$ 9,238,389	\$ 14,714,523

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, 2019

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2019, 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%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, are presented above and the District's total contributions were \$6,915,752.

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

At June 30, 2019, 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	\$ 75,271,657
State's proportionate share of the net pension liability associated with the District	43,096,544
Total	<u>\$ 118,368,201</u>

The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, respectively was 0.0819 percent and 0.0798 percent, resulting in a net increase in the proportionate share of 0.0021 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$8,266,372. In addition, the District also recognized pension expense and revenue of \$5,062,872 for support provided by the State. At June 30, 2019, 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	\$ 6,915,752	\$ -
Net differences between projected and actual earnings on plan investments	-	(2,898,434)
Differences between expected and actual experience	233,414	(1,093,363)
Adjustment due to change in assumptions	11,693,655	-
Adjustment due to differences in proportionate share	1,935,018	(5,246,592)
Total	<u>\$ 20,777,839</u>	<u>\$ (9,238,389)</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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/(Inflows) of Resources
2020	\$ 629,331
2021	(456,660)
2022	(2,431,673)
2023	(639,432)
Total	<u>\$ (2,898,434)</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 1,359,648
2021	1,359,648
2022	1,359,649
2023	1,340,475
2024	1,877,834
Thereafter	224,878
Total	<u>\$ 7,522,132</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, 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%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Discount Rate

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 110,264,169
Current discount rate (7.10%)	\$ 75,271,657
1% increase (8.10%)	\$ 46,259,469

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, 2017 annual actuarial valuation report, Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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, 2019, are presented above and the total District contributions were \$2,900,839.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$31,326,020. The net pension liability was measured as of June 30, 2018. 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, 2018 and June 30, 2017, respectively was 0.1175 percent and 0.1167 percent, resulting in a net increase in the proportionate share of 0.0008 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$6,448,151. At June 30, 2019, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Pension contributions subsequent to measurement date	\$ 2,900,839
Net differences between projected and actual earnings on plan investments	256,943
Differences between expected and actual experience	3,127,765
Adjustment due to differences in proportionate share	2,053,620
Adjustment due to changes in assumptions	366,422
	<u>\$ 8,705,589</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 934,560
2021	223,491
2022	(716,209)
2023	(184,899)
Total	<u>\$ 256,943</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.0 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2020	\$ 2,589,685
2021	2,295,342
2022	662,780
Total	<u>\$ 5,547,807</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

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

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 (6.15%)	\$ 34,620,449
Current discount rate (7.15%)	\$ 31,326,020
1% increase (8.15%)	\$ 13,697,500

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 and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,977,546, \$4,395,315, and \$3,275,147 and for fiscal years ending June 30, 2019, 2018 and 2017, respectively (9.828 percent of 2018-2019, 9.328 percent of 2017-2018, and 8.828 percent of 2016-2017 annual payrolls) and the payment of State General Fund contribution to CalPERS in the amount of \$1,062,091 for the fiscal year ending June 30, 2019. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on-behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these contribution has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the *General Fund – Budgetary Comparison Schedule and Major Special Revenue Fund – Budgetary Comparison Schedule*.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2019.

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, 2019.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Bridges New Construction/Modernization	\$ 335,100	8/2018
CA Clean Energy -Various Sites	711,497	9/2018
CCA New Construction	33,225	3/2019
Cornerstone New Construction/Modernization	119,963	8/2018
Dahl Modernization	162,399	8/2018
District Modernization	3,187	8/2018
District Technology Infrastructure	168,520	8/2019
Energy Conservation (Monitor and Verify)	23,834	Continuous
Franklin New Construction/Modernization	652,730	8/2018
Hellyer New Construction/Modernization	160,157	8/2018
Kennedy New Construction/Modernization	256,866	8/2018
Lairon Modernization	5,596,408	10/2018
Los Arboles New Construction/Modernization	33,566	8/2018
Ramblewood Modernization	220,681	4/2019
Santee Modernization	298,165	8/2018
Shirakawa Modernization/Security Safety	229,065	8/2018
Stonegate Modernization/Security Safety	18,266	8/2018
Sylvandale Modernization	185,199	8/2018
Windmill Modernization	4,651,650	9/2018
Total	\$ 9,023,627	

NOTE 15 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

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

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements. The District has appointed one board member to the Governing Board of each of these two authorities. During the year ended June 30, 2019, the District made payments of \$551,404 and \$690,078 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, 2019**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable) Final to Actual
REVENUES				
Local control funding formula	\$ 77,190,922	\$ 77,865,094	\$ 78,602,722	\$ 737,628
Federal sources	4,554,531	5,017,872	4,853,822	(164,050)
Other state sources	10,034,206	9,605,559	14,059,434	4,453,876 ¹
Other local sources	3,400,541	6,315,014	6,195,221	(119,793)
Total Revenues	95,180,200	98,803,539	103,711,199	4,907,660
EXPENDITURES				
Current				
Certificated salaries	43,179,511	44,283,359	44,120,390	162,969
Classified salaries	14,756,572	14,266,048	14,389,894	(123,846)
Employee benefits	24,631,102	24,532,378	28,545,668	(4,013,290) ¹
Books and supplies	2,177,844	2,752,187	2,493,658	258,529
Services and operating expenditures	10,295,963	11,642,228	10,961,953	680,275
Other outgo	537,516	486,861	445,803	41,058
Capital outlay	374,251	418,375	417,630	745
Debt service				
Principal	1,142,643	1,203,443	1,203,443	-
Interest and other	547,541	552,651	475,526	77,125
Total Expenditures	97,642,943	100,137,530	103,053,965	(2,916,435)
Excess (Deficiency) of Revenues Over Expenditures	(2,462,743)	(1,333,991)	657,234	1,991,225
Other Financing Sources:				
Other sources	329,251	600,714	523,590	(77,124)
NET CHANGE IN FUND BALANCES	(2,133,492)	(733,277)	1,180,824	1,914,101
Fund Balance - Beginning	18,541,802	18,541,802	18,541,802	-
Fund Balance - Ending	\$ 16,408,310	\$ 17,808,525	\$ 19,722,626	\$ 1,914,101

¹ The budgeted amounts do not include approximately \$3.96 million SB 90 State on-behalf payment.

See accompanying note to required supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
				Final to Actual
REVENUES				
Federal sources	\$ 4,850,426	\$ 4,581,496	\$ 4,603,570	\$ 22,074
Other state sources	345,000	313,755	412,052	98,297
Other local sources	594,243	627,390	538,478	(88,912)
Total Revenues	5,789,669	5,522,641	5,554,100	31,459
EXPENDITURES				
Current				
Classified salaries	1,864,341	1,782,865	1,765,667	17,198
Employee benefits	978,908	1,005,793	1,034,406	(28,613)
Books and supplies	2,199,346	2,182,146	2,211,927	(29,781)
Services and operating expenditures	561,272	528,472	441,865	86,607
Other outgo	303,170	297,511	289,362	8,149
Total Expenditures	5,907,037	5,796,787	5,743,227	53,560
NET CHANGE IN FUND BALANCES	(117,368)	(274,146)	(189,127)	85,019
Fund Balance - Beginning	660,446	660,446	660,446	-
Fund Balance - Ending	\$ 543,078	\$ 386,300	\$ 471,319	\$ 85,019

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, 2019

MEASUREMENT DATE, JUNE 30	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0819%</u>	<u>0.0798%</u>
Net pension liability		
District's proportionate share	\$ 75,271,657	\$ 73,809,593
State's proportionate share associated with the District	<u>43,096,544</u>	<u>43,665,132</u>
Total	<u>\$ 118,368,201</u>	<u>\$ 117,474,725</u>
District's covered - payroll	<u>\$ 44,490,842</u>	<u>\$ 43,358,110</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>169%</u>	<u>170%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>69%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1175%</u>	<u>0.1167%</u>
District's proportionate share of the net pension liability	<u>\$ 31,326,020</u>	<u>\$ 27,867,689</u>
District's covered - payroll	<u>\$ 15,501,704</u>	<u>\$ 14,886,812</u>
District's proportionate share of the net pension liability as a percentage of its covered payroll	<u>202%</u>	<u>187%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>71%</u>	<u>72%</u>

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

See accompanying note to required supplementary information.

2016	2015	2014
0.0865%	0.0903%	8.8600%
\$ 69,978,477	\$ 60,773,479	\$ 51,778,655
39,837,499	32,142,471	31,266,187
<u>\$ 109,815,976</u>	<u>\$ 92,915,950</u>	<u>\$ 83,044,842</u>
\$ 43,459,687	\$ 38,179,698	\$ 39,899,305
161%	159%	130%
70%	74%	77%
0.1136%	0.1133%	0.1093%
\$ 22,244,660	\$ 16,698,379	\$ 12,409,447
\$ 13,631,848	\$ 12,539,902	\$ 11,513,178
163%	133%	108%
74%	79%	83%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

FISCAL YEAR ENDED, JUNE 30	<u>2019</u>	<u>2018</u>
CalSTRS		
Contractually required contribution	\$ 6,915,752	\$ 6,416,567
Contributions in relation to the contractually required contribution	6,915,752	6,416,567
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 42,498,782</u>	<u>\$ 44,490,842</u>
Contributions as a percentage of covered - payroll	<u>16.27%</u>	<u>14.42%</u>
CalPERS		
Contractually required contribution	\$ 2,900,839	\$ 2,407,570
Contributions in relation to the contractually required contribution	2,900,839	2,407,570
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 16,112,517</u>	<u>\$ 15,501,704</u>
Contributions as a percentage of covered - payroll	<u>18.00%</u>	<u>15.53%</u>

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

See accompanying note to required supplementary information.

2017	2016	2015
\$ 5,435,247	\$ 4,662,235	\$ 3,713,348
5,435,247	4,662,235	3,713,348
\$ -	\$ -	\$ -
\$ 43,358,110	\$ 43,459,687	\$ 38,179,698
12.54%	10.73%	9.73%
\$ 2,064,693	\$ 1,614,965	\$ 1,434,816
2,064,693	1,614,965	1,434,816
\$ -	\$ -	\$ -
\$ 14,886,812	\$ 13,631,848	\$ 12,539,902
13.87%	11.85%	11.44%

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedules

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

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

These schedules 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.

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.

SUPPLEMENTARY INFORMATION

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

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	\$ 2,487,580
Title II, Part A, Teacher Quality	84.367	14341	414,498
Title III, Limited English Proficient Student Program	84.365	14346	378,906
Title IV, Part AM Student Support and Academic Enrichment Grant	84.424	¹	66,076
Special Education Cluster:			
Basic Local Assistance	84.027	13379	\$ 1,353,214
Part B, Section 611, Private School	84.027	10115	1,623
Mental Health ADA Allocation, Part B	84.027A	13682	86,111
Preschool Grant	84.173	13430	65,238
Preschool Staff Development, Part B	84.173A	13431	575
Total Special Education Cluster			<u>1,506,761</u>
Total U.S. Department of Education			<u>4,853,821</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
National School Lunch	10.555	13391/13396	2,993,196
Basic School Breakfast	10.553	13390	91,553
Especially Needy Breakfast	10.555	13526	930,922
Commodity Supplemental Food Program ²	10.555	¹	130,220
Total Child Nutrition Cluster			<u>4,145,891</u>
Child and Adult Care Food Program	10.558	13393	587,900
Total U.S. Department of Agriculture			<u>4,733,791</u>
Total Expenditures of Federal Awards			<u>\$ 9,587,612</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, 2019

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rudy Rodriguez	President	2022
George Sanchez	Vice President	2020
Maimona Afzal Berta	Clerk	2020
Thanh Tran	Member	2022
Kerry Rosado	Member	2022

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Juan Cruz	District Superintendent
Jason Vann	Assistant Superintendent, Business Services
Norma Martinez Palmer	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, 2019**

	Final Report	
	Second Period Report	Annual Report
DISTRICT		
Regular ADA		
Transitional kindergarten through third	2,902.53	2,918.78
Fourth through sixth	2,453.24	2,450.77
Seventh and eighth	1,268.30	1,268.87
Total Regular ADA	<u>6,624.07</u>	<u>6,638.42</u>
Extended Year Special Education		
Transitional kindergarten through third	2.71	2.71
Fourth through sixth	2.07	2.07
Seventh and eighth	0.99	0.99
Total Extended Year Special Education	<u>5.77</u>	<u>5.77</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.27	3.29
Fourth through sixth	3.65	3.52
Seventh and eighth	4.38	4.44
Total Special Education, Nonpublic, Nonsectarian Schools	<u>11.30</u>	<u>11.25</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.81	0.81
Fourth through sixth	0.97	0.97
Seventh and eighth	0.95	0.95
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>2.73</u>	<u>2.73</u>
Total District ADA	<u><u>6,643.87</u></u>	<u><u>6,658.17</u></u>
BRIDGES CHARTER SCHOOL		
Regular Classroom-based ADA		
Seventh and eighth	329.43	331.38
Total Regular ADA	<u>329.43</u>	<u>331.38</u>
Regular Non-Classroom-based ADA		
Seventh and eighth	0.22	0.53
Total Regular ADA	<u>0.22</u>	<u>0.53</u>
Total Charter School ADA	<u><u>329.65</u></u>	<u><u>331.91</u></u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019**

DISTRICT

Grade Level	1986-1987	2018-2019	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional	Calendar	
Kindergarten	36,000	43,500	180		Complied
Grade 1	50,400	50,568	180		Complied
Grade 2	50,400	50,568	180		Complied
Grade 3	50,400	50,568	180		Complied
Grade 4	54,000	54,003	180		Complied
Grade 5	54,000	54,003	180		Complied
Grade 6	54,000	54,003	180		Complied
Grade 7	54,000	54,003	180		Complied
Grade 8	54,000	54,003	180		Complied

BRIDGES CHARTER SCHOOL

Grade Level	1986-1987	2018-2019	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional	Calendar	
Grade 7	54,000	57,631	180		Complied
Grade 8	54,000	57,631	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, 2019**

There were no adjustments to the Unaudited Actual Financial Report, which require reconciliation to the audited financial statements as of June 30, 2019.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

	(Budget) 2020 ¹	2019	2018	2017□
GENERAL FUND				
Revenues	\$ 92,462,988	\$ 103,711,199	\$ 97,379,136	\$ 100,098,744
Other sources	-	523,590	72,506	368,817
Total revenues	92,462,988	104,234,789	97,451,642	100,467,561
Expenditures	96,639,269	103,053,965	99,812,180	98,166,319
Increase (Decrease) In Fund Balance	\$ (4,176,281)	\$ 1,180,824	\$ (2,360,538)	\$ 2,301,242
Ending Fund Balance	\$ 15,546,345	\$ 19,722,626	\$ 18,541,802	\$ 20,902,340
Available Reserves ²	\$ 11,353,945	\$ 15,530,226	\$ 16,045,982	\$ 18,050,742
Available Reserves As a Percentage of Total Outgo	11.75%	15.07%	16.08%	18.39%
LONG-TERM OBLIGATIONS OTHER THAN PENSION				
	\$ 165,145,814	\$ 173,490,556	\$ 133,546,041	\$ 139,681,463
AVERAGE DAILY ATTENDANCE AT P-2³				
	6,831	6,974	7,338	7,715

The General Fund balance has decreased by \$1,179,714 over the past two years. The fiscal year 2019-2020 budget projects a decrease of \$4,176,281 (21%). 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 2019-2020 fiscal year. Total long-term obligations excluding pension liability have increased by \$33,809,093 over the past two years.

Average daily attendance has decreased by 741 over the past two years. The District anticipates a further decrease of 143 ADA during fiscal year 2019-2020.

¹ Budget 2020 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 Average daily attendance includes Bridges Charter School.

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
JUNE 30, 2019**

<u>Charter #</u>	<u>Name of Charter School</u>	<u>Included in Audit Report</u>
1220	Bridge Academy	Yes
1545	ACE Esperanza Middle School	No
1167	Alpha: Cornerstone Academy Preparatory School	No
1608	KIPP Heritage Academy	No
1192	Rocketship Mosaic Elementary Charter School	No
1526	Rocketship Spark Academy	No
0846	Voices College-Bound Language Academy	No

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2019**

	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 5,575,408	\$ 831,628	\$ 6,407,036
Receivables	28,838	4,501	33,339
Total Assets	<u>\$ 5,604,246</u>	<u>\$ 836,129</u>	<u>\$ 6,440,375</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,447	\$ 1,416	\$ 7,863
Unearned revenue	1,736	-	1,736
Total Liabilities	<u>8,183</u>	<u>1,416</u>	<u>9,599</u>
Fund Balances:			
Restricted	<u>5,596,063</u>	<u>834,713</u>	<u>6,430,776</u>
Total Liabilities and Fund Balances	<u>\$ 5,604,246</u>	<u>\$ 836,129</u>	<u>\$ 6,440,375</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, 2019**

	Capital Facilities Fund	Special Reserve Capital Outlay Fund	Total Non-Major Governmental Funds
REVENUES			
Other state sources	\$ -	\$ 4,147	\$ 4,147
Other local sources	2,100,505	139,208	2,239,713
Total Revenues	<u>2,100,505</u>	<u>143,355</u>	<u>2,243,860</u>
EXPENDITURES			
Capital outlays	6,447	126,026	132,473
Debt service			
Principal	320,000	-	320,000
Interest and other	99,750	-	99,750
Total Expenditures	<u>426,197</u>	<u>126,026</u>	<u>552,223</u>
NET CHANGE IN FUND BALANCES			
	1,674,308	17,329	1,691,637
Fund Balance - Beginning	3,921,755	817,384	4,739,139
Fund Balance - Ending	<u>\$ 5,596,063</u>	<u>\$ 834,713</u>	<u>\$ 6,430,776</u>

See accompanying note to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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:		\$ 9,688,631
Federal Reimbursement of Qualified School Construction		(231,239)
Fair Market Value of Commodities		130,220
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,587,612</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 has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instruction minutes at the 1986-1987 requirements, as required by *Education Code* Section 46201.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019

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, 2019, 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 October 24, 2019.

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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Palo Alto, California
October 24, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT 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 (the District) 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 major Federal programs for the year ended June 30, 2019. 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, 2019.

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
October 24, 2019



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 (the District) compliance with the types of compliance requirements as identified in the *2018-2019 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, 2019.

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 *2018-2019 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, 2019.

	<u>Procedures Performed</u>
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
Apprenticeship: Related and Supplemental Instruction	No, See below
Comprehensive School Safety Plan	Yes
District of Choice	No, See below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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, Apprenticeship: Related and Supplemental Instruction, District of Choice, 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.

Eide Sully LLP

Palo Alto, California
October 24, 2019

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

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>
84.010, 84.011	Title I Cluster
84.027, 84.173	Special Ed (IDEA) 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, 2019**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

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

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§[PAR AMOUNT]
FRANKLIN-MCKINLEY SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
ELECTION OF 2020 GENERAL OBLIGATION BONDS
SERIES A

CONTINUING DISCLOSURE CERTIFICATE

Dated: [CLOSING DATE]

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Franklin-McKinley School District (the “School District”) in connection with the issuance of §[PAR AMOUNT] aggregate principal amount of Franklin-McKinley School District (Santa Clara County, California) Election of 2020 General Obligation Bonds, Series A (the “Bonds”). The Bonds are being issued pursuant to a paying agent agreement dated July 1, 2020 (the “Paying Agent Agreement”), between the School District and U.S. Bank National Association (the “Paying Agent”). The School District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being delivered by the School District for the benefit of the holders and beneficial owners of the Bonds, and to assist the Participating Underwriter, as defined below, in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Paying Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report means any report provided by the School District pursuant to, and as described in, Sections 3 (Provision of Annual Reports) and 4 (Content of Annual Reports) of this Disclosure Certificate.

Beneficial Owner means any person who (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

Bondholders means either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

Dissemination Agent means the School District, or any successor Dissemination Agent designated in writing by the School District, and which has filed with the School District a written acceptance of such designation.

EMMA or Electronic Municipal Market Access means the centralized online repository for documents filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

Financial Obligation means a (a) debt obligation; (b) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Listed Events means any of the events listed in Section 5(a) (Reporting of Significant Events – Significant Events) of this Disclosure Certificate.

MSRB means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information, which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

Official Statement means the final Official Statement dated [SALE DATE], relating to the Bonds.

Opinion of Bond Counsel means a written opinion of a law firm or attorney experienced in matters relating to obligations the interest on which is excludable from gross income for federal income tax purposes.

Participating Underwriter means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository means MSRB or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

Rule means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

State means the State of California.

Section 3. Provision of Annual Reports.

a. Delivery of Annual Report to Repositories. The District shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of each fiscal year, commencing with the report for the 2019-2020 Fiscal Year, due March 31, 2021, provide to the

Repository an Annual Report that is consistent with the requirements of Section 4 (Content of Annual Reports) of this Disclosure Certificate. The Annual Report may be submitted as a single document or as a package of separate documents and may include by cross-reference other information as provided in Section 4 (Content of Annual Reports) of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the School District's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d).

If the School District does not provide, or cause the Dissemination Agent to provide, an Annual Report by the date required above, the Dissemination Agent shall provide in a timely manner to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

b. The Dissemination Agent shall:

(1) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(2) if the Dissemination Agent is other than the School District, file a report with the School District and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The School District's Annual Report shall contain or include by reference the following:

a. Audited financial statements prepared in accordance with the generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the School District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

b. To the extent not included in the audited financial statements, the following information:

(1) State funding received by the School District for the last completed fiscal year;

(2) The average daily attendance of the School District for the last completed fiscal year;

(3) Assessed valuations of taxable property within the District, for the current fiscal year;

(4) Outstanding School District indebtedness; and

(5) Summary financial information on revenues, expenditures, and fund balances for the District's general fund reflecting adopted budget for the current fiscal year; and

(6) Secured *ad valorem* tax charges and delinquencies within the District for the last completed year, except to the extent the County of Santa Clara continues to implement the Teeter Plan for secured tax levies within the District.

c. In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the School District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the School District or related public entities, which are available to the public on the MSRB's internet website or filed with the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The School District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

a. Significant Events. Pursuant to the provisions of this Section, the School District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bondholders, if material;
- (8) Bond calls, if material;
- (9) Tender offers;
- (10) Defeasances;
- (11) Release, substitution, or sale of property securing repayment of the Bonds, if material;

- (12) Rating changes;
- (13) Bankruptcy, insolvency, receivership or similar event of the School District;
- (14) The consummation of a merger, consolidation, or acquisition, or certain asset sales, involving the School District, or entry into or termination of a definitive agreement relating to the foregoing, if material;
- (15) Appointment of a successor or additional trustee or paying agent, or the change of name of the trustee or paying agent, if material.
- (16) Incurrence of a Financial Obligation of the School District, if material, or agreement to covenant, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the School District, any of which affect Bondholders, if material;
- (17) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the School District, any of which reflect financial difficulties.

b. Determination of Materiality. Whenever the School District obtains knowledge of one of the foregoing events notice of which must be given only if material, the School District shall immediately determine if such event would be material under applicable federal securities laws.

c. Notice to Dissemination Agent. If the School District has determined an occurrence of a Listed Event under applicable federal securities laws, the School District shall promptly notify the Dissemination Agent (if other than the School District) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d) (Notice of Listed Events).

d. Notice of Listed Events. The School District shall file, or cause the Dissemination Agent to file, with the MSRB, in an electronic format prescribed by the MSRB, a notice of the occurrence of a Listed Event to provide notice of specified events in a timely manner not in excess of ten (10) business days after the event's occurrence. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(9) (bond calls) need not be given under this subsection any earlier than the notice (if any) given to Bondholders of affected Bonds pursuant to the Paying Agent Agreement.

Section 6. Identifying Information for Filings with MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be filed in a readable PDF or other electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The School District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the School District shall give notice of such termination in the same manner as for a Listed Event under Section 5(d) (Notice of Listed Events).

Section 8. Dissemination Agent. The School District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be Isom Advisors, a Division of Urban Futures, Inc.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the School District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

a. if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

b. the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

c. the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Paying Agent Agreement for amendments to the Paying Agent Agreement with the consent of holders, or (ii) does not, in the opinion of the Paying Agent or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the School District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(d).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of

communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the School District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the School District fails to comply with any provision of this Disclosure Certificate, any Bondholder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the School District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Paying Agent Agreement, and the sole remedy under this Disclosure Certificate if the School District fails to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the School District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the School District, the Bondholders, or any other party. The obligations of the School District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the School District, the Paying Agent, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, the School District has caused this Continuing Disclosure Certificate to be executed by its authorized officer as of the day and year first above written.

FRANKLIN-MCKINLEY SCHOOL DISTRICT

By: _____
Jason Vann,
Assistant Superintendent, Business Services

EXHIBIT A

FORM OF NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: FRANKLIN-MCKINLEY SCHOOL DISTRICT

Name of Bonds: FRANKLIN-MCKINLEY SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
ELECTION OF 2020 GENERAL OBLIGATION BONDS
SERIES A

Date of Delivery: [CLOSING DATE]

NOTICE IS HEREBY GIVEN that the Franklin-McKinley School District (the “District”) has not provided an Annual Report with respect to the above-named Bonds as required by a Continuing Disclosure Certificate executed [CLOSING DATE], with respect to the above-captioned bond issue. The District anticipates that the Annual Report will be filed by _____.

Date: _____ **FRANKLIN-MCKINLEY SCHOOL DISTRICT**

[SAMPLE ONLY]

By: _____

**APPENDIX D
ECONOMIC AND DEMOGRAPHIC INFORMATION FOR
SANTA CLARA COUNTY AND THE CITY OF SAN JOSE**

The following economic data for Santa Clara County and the City of San Jose is presented for information purposes only. The Bonds are not a debt or obligation of either Santa Clara County or the City of San Jose.

General

Santa Clara County (the “County”) is one of nine counties in the greater metropolitan San Francisco Bay Area. As the home of “Silicon Valley,” the area is the birthplace of the semiconductor and computer industries in the United States.

The City of San Jose (the “City”) is the third most populous city in the State of California (the “State”) and the tenth in the United States. Located on the southern end of the San Francisco Bay, the City is sometimes referred to as the “Capital of Silicon Valley.” The City is the home to many of the largest technology companies. The City is a charter city with a council-manager government, and a city manager nominated by the mayor and confirmed by the city council.

Population

The following table summarizes 10 years of population estimates for the City, County and State from 2011 through 2020.

**POPULATION ESTIMATES
City of San Jose, Santa Clara County and State of California
2011 through 2020**

Year ⁽¹⁾	City of San Jose	Santa Clara County	State of California
2011	963,515	1,805,695	37,561,624
2012	981,678	1,834,926	37,924,661
2013	997,781	1,863,975	38,269,864
2014	1,012,694	1,887,079	38,556,732
2015	1,028,040	1,912,180	38,870,150
2016	1,037,952	1,931,565	39,131,307
2017	1,045,047	1,942,176	39,398,702
2018	1,048,875	1,951,088	39,586,646
2019	1,047,871	1,954,833	39,695,376
2020 ⁽²⁾	1,049,187	1,961,969	39,782,870

⁽¹⁾ As of January 1 of each year.

⁽²⁾ Provisional estimate.

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2012-2020, with 2010 Census Benchmark, Sacramento California, May 1, 2020.

Employment

The following table summarizes civilian labor force, employment and unemployment statistics for the City, County and State from 2015 through 2019.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT City of San Jose, Santa Clara County and State of California⁽¹⁾ 2015 through 2019

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate
2015	City of San Jose	539,900	514,400	25,000	4.6%
	Santa Clara County	1,013,200	971,100	42,000	4.1
	State of California	18,851,100	17,681,800	1,169,200	6.2
2016	City of San Jose	544,600	523,200	21,400	3.9%
	Santa Clara County	1,028,700	989,900	38,800	3.8
	State of California	19,044,500	18,002,800	1,041,700	5.5
2017	City of San Jose	550,200	531,800	18,400	3.3%
	Santa Clara County	1,039,900	1,006,500	33,400	3.2
	State of California	19,205,300	18,285,500	919,800	4.8
2018	City of San Jose	555,100	534,800	15,300	2.8%
	Santa Clara County	1,048,800	1,021,500	27,300	2.6
	State of California	19,398,200	18,582,800	815,400	4.2
2019	City of San Jose	555,600	541,000	14,600	2.6%
	Santa Clara County	1,053,700	1,027,500	26,200	2.5
	State of California	19,411,600	18,627,400	784,200	4.0

⁽¹⁾ Data not seasonally adjusted.

Source: State of California Employment Development Department, Labor Market Information Division, Monthly Labor Force Data for Cities and Census Designated Places, Annual Average, March 2019 Benchmark, dated March 27, 2020; State of California Employment Development Department, Labor Market Information Division, Report 400 C, Monthly Labor Force Data for Counties, March 2018 Benchmark, dated May 31, 2019.

[Remainder of page intentionally left blank]

Industry

The County is entirely within the San Jose-Santa Clara-Sunnyvale Metropolitan Statistical Area (the “MSA”). The following table summarizes the annual average industry employment in the MSA from 2015 through 2019.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES 2015 through 2019 San Jose-Santa Clara-Sunnyvale MSA

	2015	2016	2017	2018	2019
Total Farm	5,500	6,100	5,800	5,800	5,000
Mining and Logging	200	300	200	200	200
Construction	43,900	48,300	49,300	49,900	52,500
Manufacturing	164,800	166,700	166,900	172,100	173,000
Wholesale Trade	35,800	35,500	33,500	32,200	31,700
Retail Trade	86,600	85,800	85,800	85,700	83,600
Transportation, Warehousing and Utilities	14,600	15,500	15,400	15,800	16,200
Information	68,800	75,200	85,200	92,200	100,800
Financial Activities	34,600	35,600	36,100	36,700	37,700
Professional and Business Services	223,700	232,600	236,600	237,000	242,900
Educational and Health Services	156,600	162,900	169,200	173,400	175,500
Leisure and Hospitality	96,800	100,600	103,400	105,700	106,500
Other Services	27,600	27,600	28,900	28,900	29,200
Government	92,900	94,100	95,500	96,700	97,200

Source: State of California Employment Development Department, Labor Market Information Division, March 2019 Benchmark, dated March 27, 2020.

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Largest Employers

The following tables list the largest employers in the County and City in 2019.

LARGEST EMPLOYERS Santa Clara County 2019⁽¹⁾

Rank	Employer	Estimated # of Employees	% of County Employment
1.	Apple Inc.	25,000	2.44%
2.	Google LLC	24,626	2.40
3.	County of Santa Clara	20,883	2.04
4.	Stanford University	16,919	1.65
5.	Cisco Systems Inc.	14,674	1.43
6.	Kaiser Permanente Northern California	12,500	1.22
7.	Stanford Health Care (formerly Hospital & Clinics)	10,034	0.98
8.	Tesla Motors Inc.	10,000	0.98
9.	Applied Materials, Inc.	8,500	0.83
10.	Intel Corporation	8,400	0.82

⁽¹⁾ Unaudited.

Source: County of Santa Clara, Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2019.

LARGEST EMPLOYERS City of San Jose 2018

Rank	Employer	Number of Employees	% of Total Employment
1.	County of Santa Clara	18,750	3.40%
2.	Cisco Systems	9,500	1.74
3.	City of San Jose (full-time employees)	7,728	1.42
4.	San Jose State University	3,600	0.66
5.	eBay	3,400	0.62
6.	Paypal, Inc.	3,300	0.60
7.	Adobe Systems, Inc.	2,900	0.53
8.	Kaiser Permanente	2,585	0.47
9.	Target Stores	2,400	0.44
10.	Good Samaritan Health System	2,240	0.41
11.	Western Digital	2,200	0.40
12.	Super Micro Computer	2,000	0.37
13.	Safeway	1,800	0.33
14.	Cadence Design Systems	1,750	0.32
15.	Regional Medical Center	1,625	0.30

Source: City of San Jose, Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2019.

Commercial Activity

The following tables summarize taxable sales in the County and City from 2015 through 2019.

**TAXABLE SALES
Santa Clara County
2015 through 2019
(Dollars in Thousands)**

	<u>Retail Permits</u>	Retail Taxable <u>Transactions</u>	<u>Total Permits</u>	Total Taxable <u>Transactions</u>
2015	29,976	\$23,993,909	50,036	\$41,524,760
2016	30,062	24,455,352	50,394	42,128,430
2017	30,263	25,206,495	50,812	43,149,031
2018	30,266	26,885,138	52,994	45,353,074
2019	30,024	27,836,133	53,312	46,887,483

Source: California Department of Tax and Fee Administration, Taxable Sales in California – All Counties (Sales & Use Tax).

**TAXABLE SALES
City of San Jose
2015 through 2019
(Dollars in Thousands)**

	<u>Retail Permits</u>	Retail Taxable <u>Transactions</u>	<u>Total Permits</u>	Total Taxable <u>Transactions</u>
2015	14,269	\$10,281,906	22,866	\$15,299,015
2016	14,183	10,375,964	22,891	15,254,162
2017	14,214	10,726,407	22,997	15,222,401
2018	14,554	11,556,068	24,323	16,428,568
2019	14,592	12,316,652	24,654	17,107,117

Source: California Department of Tax and Fee Administration, Taxable Sales in California – All Cities (Sales & Use Tax).

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Personal Income

The following table summarizes per capita personal income in the County, State and United States from 2010 through 2019.

PER CAPITA PERSONAL INCOME Santa Clara County, State of California, and United States 2010 through 2019

<u>Year</u>	<u>Santa Clara County</u> ⁽¹⁾	<u>State of California</u> ⁽²⁾	<u>United States</u> ⁽²⁾
2010	\$61,330	\$43,636	\$40,547
2011	66,406	46,175	42,739
2012	72,792	48,813	44,605
2013	72,927	49,303	44,860
2014	79,055	52,363	47,071
2015	86,188	55,808	48,994
2016	92,505	57,801	49,890
2017	100,177	60,219	51,910
2018	107,877	63,711	54,526
2019	not available	66,661	56,663

⁽¹⁾ Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2018 reflect county population estimates available as of March 2019. Last updated: November 4, 2019--revised statistics for 1969-2017.

⁽²⁾ Per capita personal income is total personal income divided by total midyear population. Last updated: March 24, 2020—revised statistics for 2010-2018.

Note-- All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data, GDP & Personal Income.

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APPENDIX E
SANTA CLARA COUNTY INVESTMENT POOL

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Quarterly Investment Report

March 31, 2020



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Quarterly Investment Report Table of Contents

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Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Susan Ellenberg, S. Joseph Simitian

County Executive: Jeffrey V. Smith



Santa Clara County Commingled Pool and Segregated Investments

March 31, 2020

Fund	Cost Value**	Market Value	Variance	% Variance
Commingled Investment Pool	\$8,494,222,830	\$8,577,676,049	\$83,453,219	0.98%
Worker's Compensation	\$29,340,991	\$29,965,902	\$624,911	2.13%
Park Charter Fund	\$4,309,480	\$4,381,320	\$71,840	1.67%
San Jose-Evergreen	\$20,870,770	\$20,864,653	-\$6,117	-0.03%
Medical Malpractice Insurance Fund (1)	\$9,513,478	\$9,863,523	\$350,046	3.68%
Total	\$8,558,257,548	\$8,642,751,447	\$84,493,899	0.99%

(1) Managed by Chandler Asset Management, Inc.

Summary of Yields* for Select Santa Clara County Investment Funds

Fund	2020			2019
	<u>Jan 31</u>	<u>Feb 29</u>	<u>Mar 31</u>	<u>Mar 31</u>
Commingled Investment Pool	1.94%	1.94%	1.80%	2.22%
Worker's Compensation	2.02%	2.03%	1.31%	2.41%
Weighted Yield	1.94%	1.94%	1.80%	2.22%

*Yield to maturity (YTM) is the rate of return paid on a bond, note, or other fixed income security if the investor buys and holds it to its maturity date and if the coupon interest paid over the life of the bond is reinvested at the same rate as the coupon rate. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price at time of purchase.

Yield is a snapshot measure of the yield of the portfolio on the day it was measured based on the current portfolio holdings on that day. This is not a measure of total return, and is not intended to be, since it does not factor in unrealized capital gains and losses and reinvestment rates are dependent upon interest rate changes

**Cost Value is the amortized book value of the securities as of the date of this report.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Strategy

March 31, 2020

The U.S. domestic economy abruptly entered a recessionary cycle, ending a ten year stretch of uninterrupted, record-long expansion. During the first quarter of 2020, the economy shrank at an 4.8 percent annualized pace. Economic activity sharply slowed after government, local and state, issued shelter-in-place and other social distancing protocol orders in response to mounting concerns over the spread of Covid-19 virus infections. The U.S. eventually became the worldwide epicenter of the epidemic with more than one million infections, as of April 28th. Roughly, three in four Americans were told to stay at home with limited allowances for those whose work involve provision of essential services. In a matter of weeks, the U.S. economic outlook for 2020 deteriorated from solid consumer-driven growth underscored by a strong and resilient labor market to that of one teetering on the brink of a significant downturn. Global financial markets including the S&P 500 Index, the benchmark U.S. stock gauge, experienced severe and elevated market volatility spurred by investor uncertainty on how disruptions caused by virus lockdowns would impact global economic growth.

Businesses most adversely impacted were initially those in travel, hospitality, restaurant, airline and retailing sectors, many of whom were shuttered due to public health orders. The economic impact of the Covid-19 outbreak quickly shifted to other sectors including a wave of layoffs in manufacturing. U.S. automakers idled production plants while other factories were closed due to declining demand or parts shortages. U.S. factory output dropped in March by the most since 1946. The unprecedented and pervasive economic toll levied by the Covid-19 outbreak is most glaringly evidenced by the historically large number of Americans, surpassing 30 million, who filed for unemployment benefits due to widespread closure of non-essential businesses between mid-March and April 25, 2020. At least 24 percent of the entire labor force in Hawaii, Kentucky and Michigan became unemployed over that same period. The steepest employment losses appeared to occur between mid and late March, when the economy shed about 13 million jobs, largely in leisure and hospitality according to Federal Reserve Bank analysis. By comparison, only 9 million jobs were lost over the entire course of the 2007-09 recession. Government claims report do not specify if lay-offs were temporary or permanent. A significant portion of employees laid-off by retailers were not fired but furloughed, according to data compiled by Bloomberg. Even though furloughs are meant to be temporary, it is unclear whether workers of any sector will have guaranteed jobs to return to after containment of this virus.

To provide direct economic relief addressing soaring unemployment and plunging financial markets, the Federal Reserve Bank (Fed) and the U.S. Congress authorized sweeping and unprecedented monetary and fiscal emergency measures. The \$2.4 trillion spending bill signed by President Donald Trump is the largest stimulus package in U.S. history which consists of cash handouts and loans intended to incentivize certain companies to avoid immediate layoffs and complete shutdowns and help individual households meet urgent needs. Only half of U.S. small businesses have enough cash reserves to cover 15 days of operating expenses.

Households benefit from an one-time direct cash payment, vastly expanded unemployment benefits including a larger pay-out, expanded eligibility and an longer payment period. For businesses, the bill creates a \$500 billion fund to provides loans to big businesses. In addition, small businesses will get \$350 billion in loans and direct assistance. If small businesses maintain their payrolls, more of the assistance will come in the form of grants rather than loans. The bill also gives \$150 billion to state and local governments.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Strategy

March 31, 2020

The Fed announced it would buy unlimited amounts of Treasury bonds and mortgage-backed securities to keep borrowing costs at rock-bottom levels. The Fed also set up special programs to reduce the risk of financial market dislocations; to prevent liquidity pressures from turning into solvency ones and ensure ample funding is available for corporations as well as for state and local governments. Unlike the 2008-2009 credit crisis, in which the Fed focused solely on propping up the banking system, the central bank's support is much more expansive this time around. Almost every sector of fixed income, from Treasuries to municipals bonds in addition to money market mutual funds, came under stress in March. The Fed has indicated it is aiming to spend trillions of dollars to support its initiatives. The initial stages of the Covid-19 scare had previously prompted the Fed to deliver 50 basis points of emergency easing on March 3rd. With current interest rates at near-zero, the Fed policy makers have given strong assurances they intend to keep rates very low for the foreseeable future.

Official data releases on employment, inflation and gross domestic product will eventually reflect the full effect of Covid-19 on economic activity, but so far, many economists believe recent indicators are behind the curve in mirroring the pandemic's true impact. Government measures including closures of restaurants and stores essentially did not begin until mid-March. More than 30 million Americans filed for unemployment benefits in six weeks, pushing the jobless rate likely to the highest since the Great Depression. Yet, the unemployment rate for March only jumped to 4.4 percent from the prior month's historically low, not seen in five decades, rate of 3.5 percent. Undoubtedly, April's labor report will post harsher numbers. The duration of the economic downturn and the shape of a subsequent recovery is difficult to predict and subject to many considerations. The effectiveness of monetary and fiscal relief will be critical. State unemployment agencies have struggled to cope with the unprecedented surge in applicants resulting in significant processing delays. Other factors include when and how fast restrictions are lifted on companies and schools, changes in consumer spending patterns, restoration of supply chains and critically, emergence of a vaccine or effective therapy.

The portfolio strategy continues to focus on the:

- (1) acquisition of high-quality issuers;
- (2) identifying and selecting bonds with attractive valuations;
- (3) appropriately sizing the liquidity portion of the portfolio to ensure adequate cash for near term obligations; and
- (4) ensuring that monies targeted for longer term investments are deployed in vehicles with favorable risk-adjusted yields.

The portfolio strategy continues to focus on the:

- (1) acquisition of high-quality issuers;
- (2) identifying and selecting bonds with attractive valuations;
- (3) appropriately sizing the liquidity portion of the portfolio to ensure adequate cash for near term obligations; and
- (4) ensuring that monies targeted for longer term investments are deployed in vehicles with favorable risk-adjusted yields.

Broker-dealers have generally down-sized the amount of securities carried in inventories in response to risk-curbing rules crafted after the 2008 financial crisis. These risk curbing rules include the international regulatory framework for banks called Basel III and the U.S. 2010 Dodd-Frank Law. The Treasury Division has increased its capability to review a larger volume of inventory listings to find attractive bonds. Portfolio structuring does not solely rely on interest rate anticipation strategies, which primarily speculate on the direction of interest rates to earn favorable returns.



Santa Clara County Commingled Pool and Segregated Investments

Portfolio Liquidity Adequacy, Review, and Monitoring

March 31, 2020

Yield and Weighted Average Maturity

The yield of the Commingled Pool is 1.8 and the weighted average life is 547 days.

Liquidity Adequacy

The County Treasurer believes the Commingled Pool contains sufficient cash flow from liquid and maturing securities, bank deposits and incoming cash to meet the next six months of expected expenditures.

Review and Monitoring

FHN Financial Main Street Advisors, the County's investment advisor, currently monitors the Treasury Department's investment activities.

Additional Information

Securities are purchased with the expectation that they will be held to maturity, so unrealized gains or losses are not reflected in the yield calculations.

The market values of securities were taken from pricing services provided by the Bank of New York Mellon, Bloomberg Analytics, dealer quotes, and an independent pricing service.

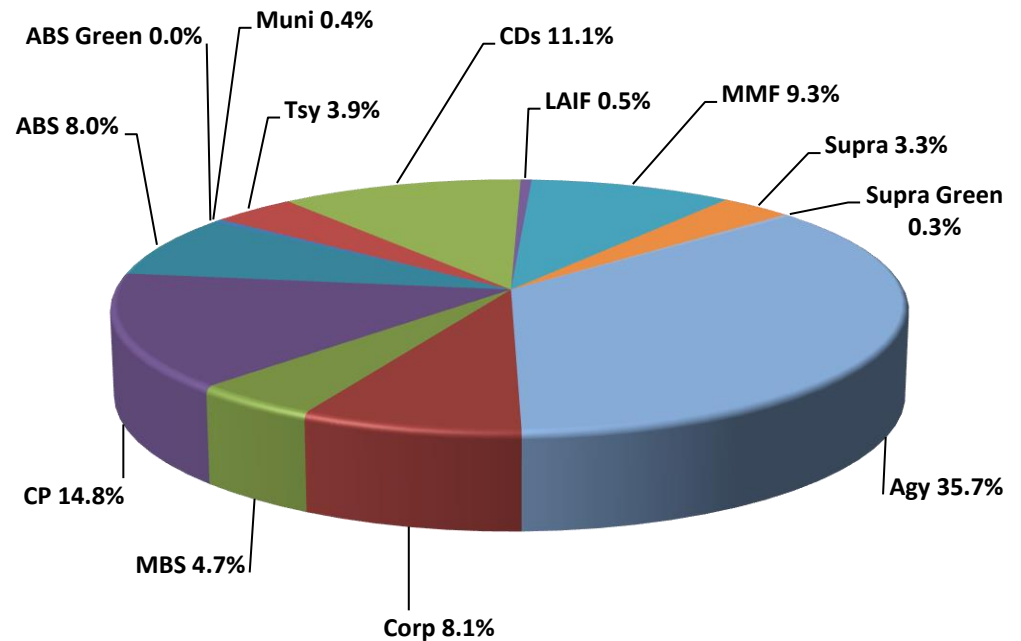


Santa Clara County Commingled Pool

Allocation by Security Types

March 31, 2020

Sector	3/31/2020	12/31/2019	% Chng
Federal Agencies	35.73%	42.06%	-6.3%
Corporate Bonds	8.06%	6.11%	2.0%
Mortgage Backed Securities	4.66%	3.88%	0.8%
Commercial Paper	14.76%	10.99%	3.8%
ABS	7.95%	6.33%	1.6%
ABS Green Bonds	0.00%	0.00%	0.0%
Municipal Securities	0.37%	0.34%	0.0%
U.S. Treasuries	3.89%	3.52%	0.4%
Negotiable CDs	11.12%	10.20%	0.9%
LAIF	0.50%	0.45%	0.0%
Money Market Funds	9.33%	13.05%	-3.7%
Supranationals	3.33%	2.81%	0.5%
Supranationals Green Bonds	0.29%	0.27%	0.0%
Total	100.00%	100.00%	



Sector	3/31/2020	12/31/2019
Federal Agencies	3,035,148,701	3,937,928,439
Corporate Bonds	684,763,817	572,003,613
Mortgage Backed Securities	396,075,724	363,586,967
Commercial Paper	1,253,825,935	1,028,835,149
ABS	675,662,189	592,684,553
ABS Green Bonds	-	-
Municipal Securities	31,416,789	31,423,357
U.S. Treasuries	330,231,984	329,842,654
Negotiable CDs	944,880,880	955,000,000
LAIF	42,549,653	42,306,613
Money Market Funds	792,142,405	1,221,663,058
Supranational	282,524,754	262,903,805
Supranationals Green Bonds	25,000,000	25,000,000
Total	8,494,222,830	9,363,178,207

Amounts are based on book value

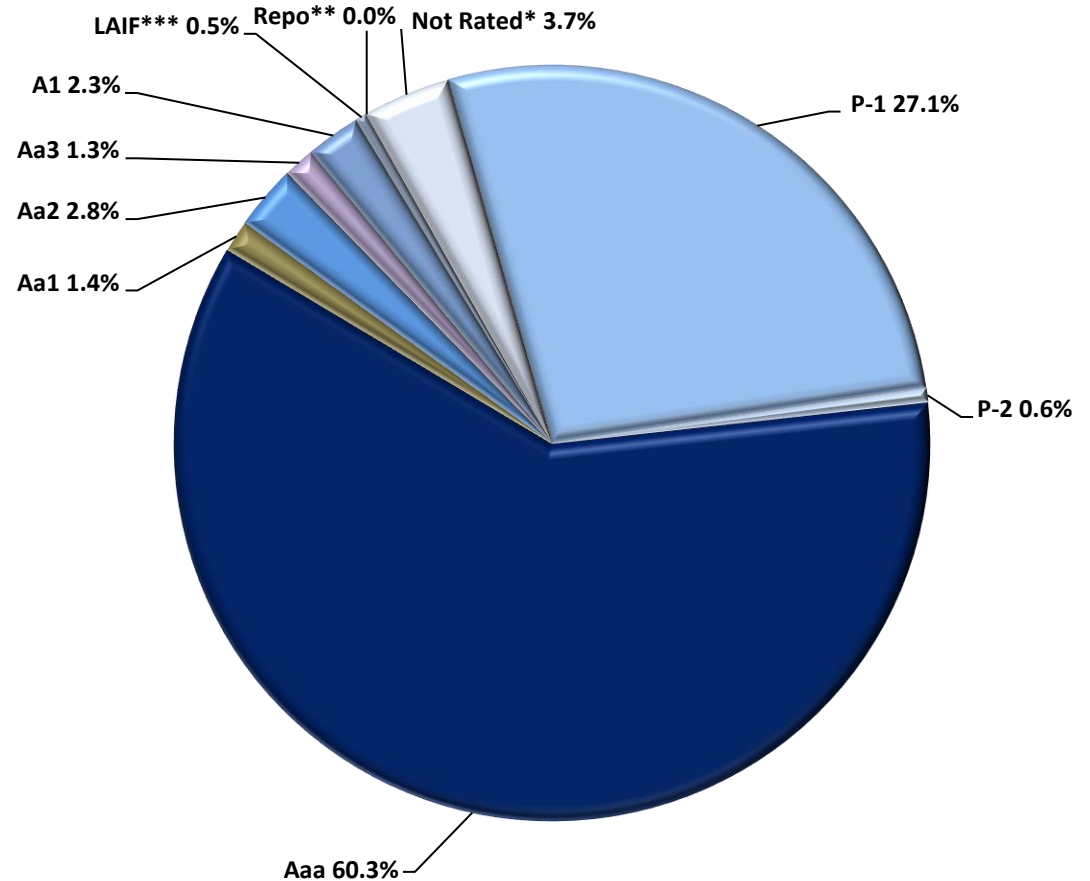


Santa Clara County Commingled Pool

Allocation by Ratings

March 31, 2020

Moody's Rating	Portfolio \$	Portfolio %
P-1	2,303,399,485	27.1%
P-2	49,637,665	0.6%
Aaa	5,121,507,588	60.3%
Aa1	114,678,436	1.4%
Aa2	234,006,429	2.8%
Aa3	112,409,563	1.3%
A1	198,653,279	2.3%
A2	-	0.0%
A3	-	0.0%
LAIF***	42,549,653	0.5%
Repo**	-	0.0%
Not Rated*	317,380,730	3.7%
Total	8,494,222,830	100.0%



*Not Rated by Moody's but A-1+ by S&P

**Repurchase Agreements are not rated, but are collateralized by U.S. Treasury securities or securities issued by the Federal Agencies of the U.S.

***LAIF is not rated, but is comprised of State Code allowable securities

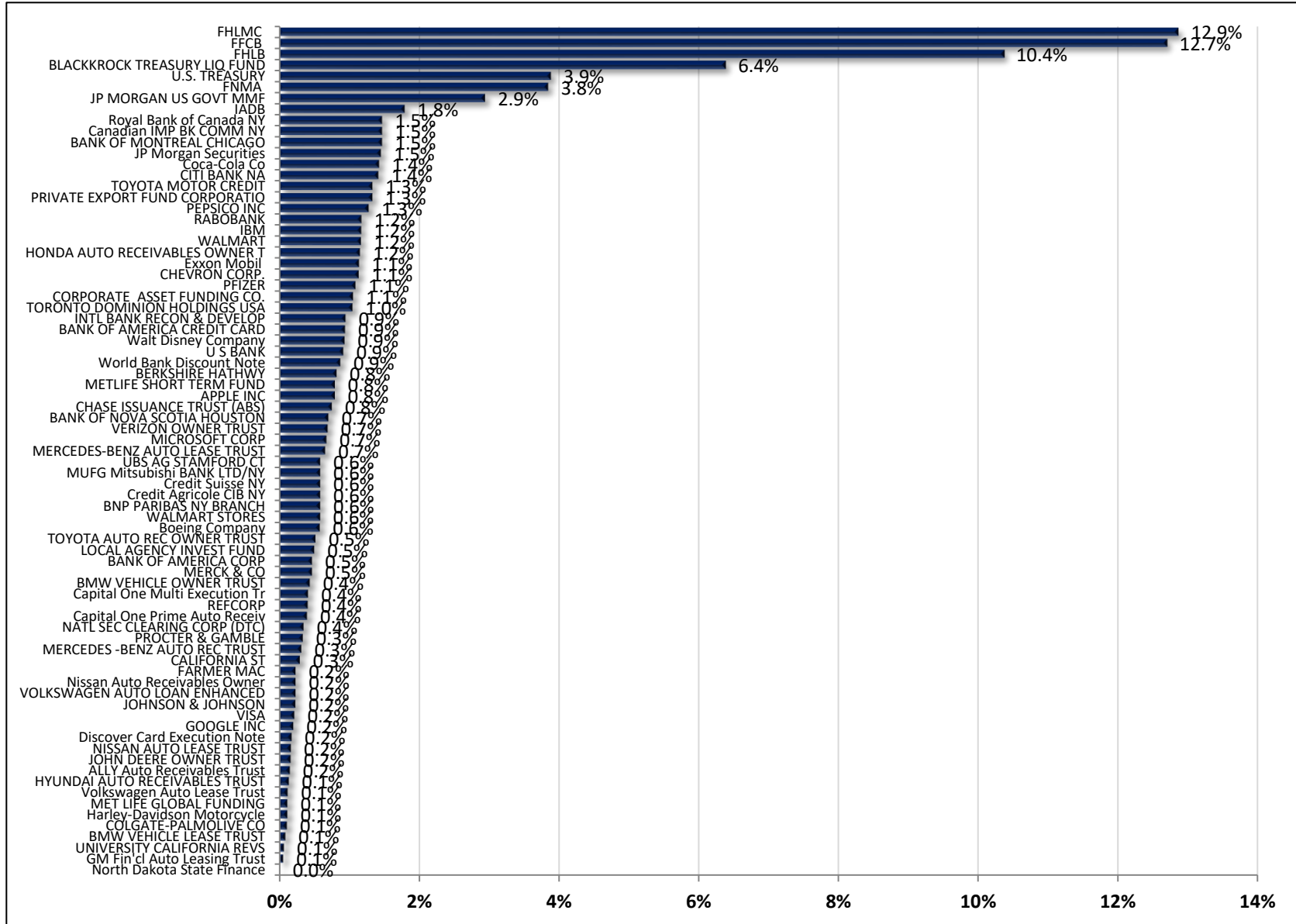
Amounts are based on book values



Santa Clara County Commingled Pool

Holdings by Issuer - Percent of Commingled Pool

March 31, 2020



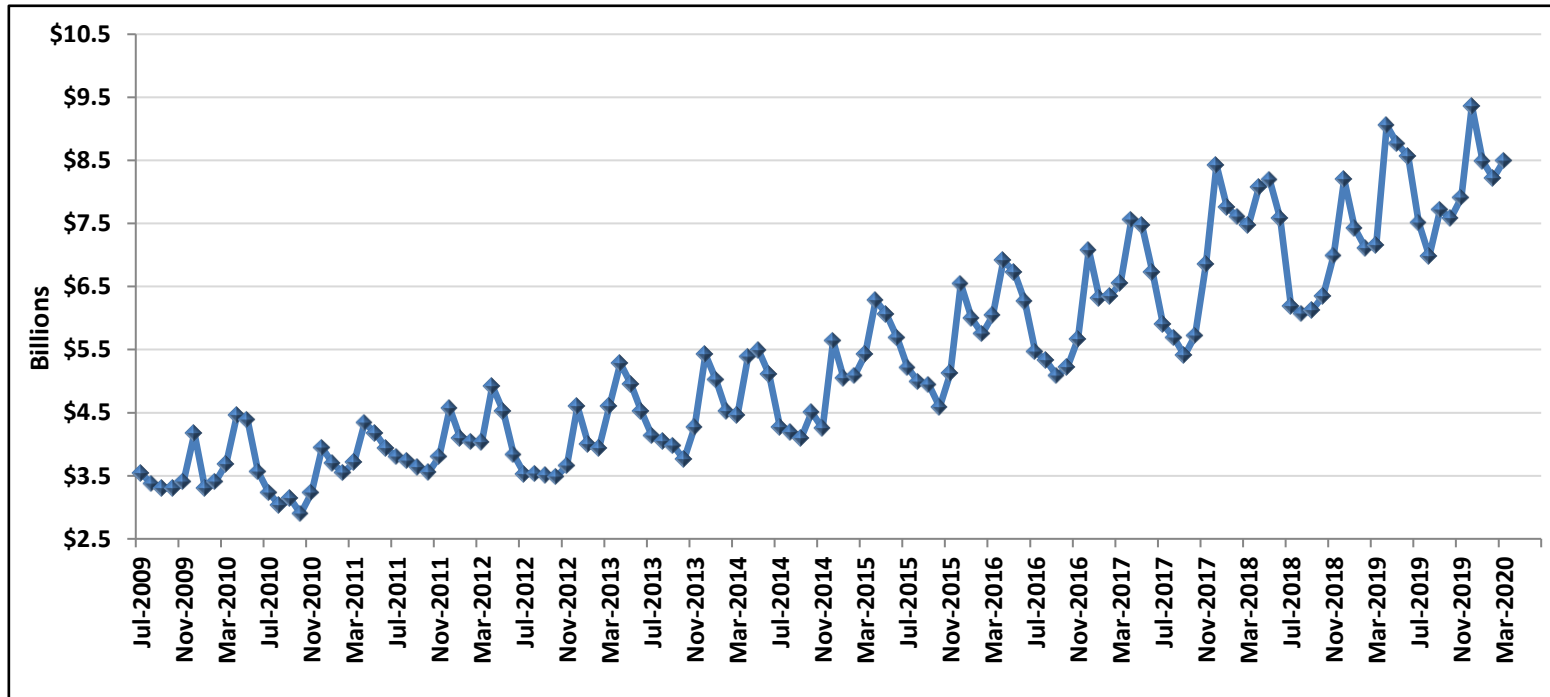
Amounts are based on book values



Santa Clara County Commingled Pool

Historical Month End Book Values

March 31, 2020



Fiscal Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
FY 2010	\$3.541	\$3.373	\$3.307	\$3.307	\$3.408	\$4.175	\$3.307	\$3.408	\$3.687	\$4.463	\$4.384	\$3.536
FY 2011	\$3.230	\$3.032	\$3.143	\$2.898	\$3.227	\$3.943	\$3.695	\$3.551	\$3.712	\$4.339	\$4.179	\$3.935
FY 2012	\$3.801	\$3.736	\$3.637	\$3.555	\$3.805	\$4.567	\$4.097	\$4.040	\$4.032	\$4.926	\$4.525	\$3.833
FY 2013	\$3.508	\$3.517	\$3.515	\$3.469	\$3.645	\$4.600	\$3.918	\$3.982	\$4.606	\$5.286	\$4.952	\$4.521
FY 2014	\$4.133	\$4.052	\$3.975	\$3.758	\$4.271	\$5.419	\$5.019	\$4.520	\$4.461	\$5.386	\$5.487	\$5.108
FY 2015	\$4.267	\$4.194	\$4.096	\$4.051	\$4.247	\$5.639	\$5.045	\$5.085	\$5.420	\$6.284	\$6.065	\$5.690
FY 2016	\$5.212	\$4.990	\$4.941	\$4.587	\$5.120	\$6.543	\$5.997	\$5.752	\$6.040	\$6.911	\$6.728	\$6.263
FY 2017	\$5.469	\$5.328	\$5.088	\$5.220	\$5.671	\$7.082	\$6.319	\$6.348	\$6.550	\$7.556	\$7.469	\$6.730
FY 2018	\$5.898	\$5.689	\$5.408	\$5.720	\$6.850	\$8.427	\$7.754	\$7.608	\$7.472	\$8.079	\$8.192	\$7.584
FY 2019	\$6.180	\$6.068	\$6.127	\$6.350	\$6.987	\$8.199	\$7.425	\$7.105	\$7.151	\$9.054	\$8.767	\$8.565
FY 2020	\$7.510	\$6.984	\$7.179	\$7.583	\$7.909	\$9.363	\$8.487	\$8.219	\$8.494			

Amounts in billions

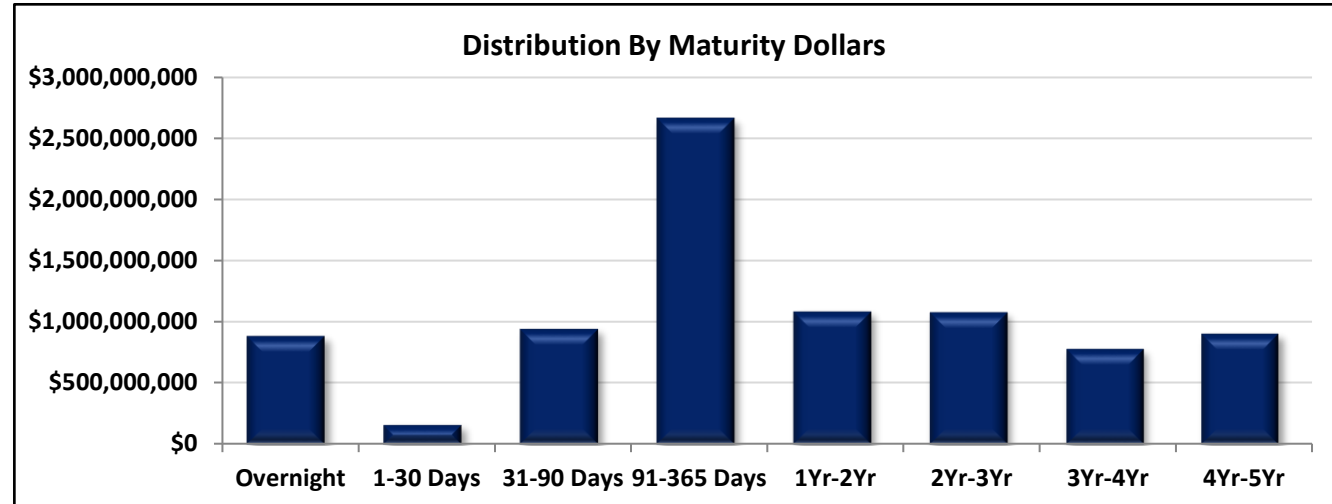


Santa Clara County Commingled Pool

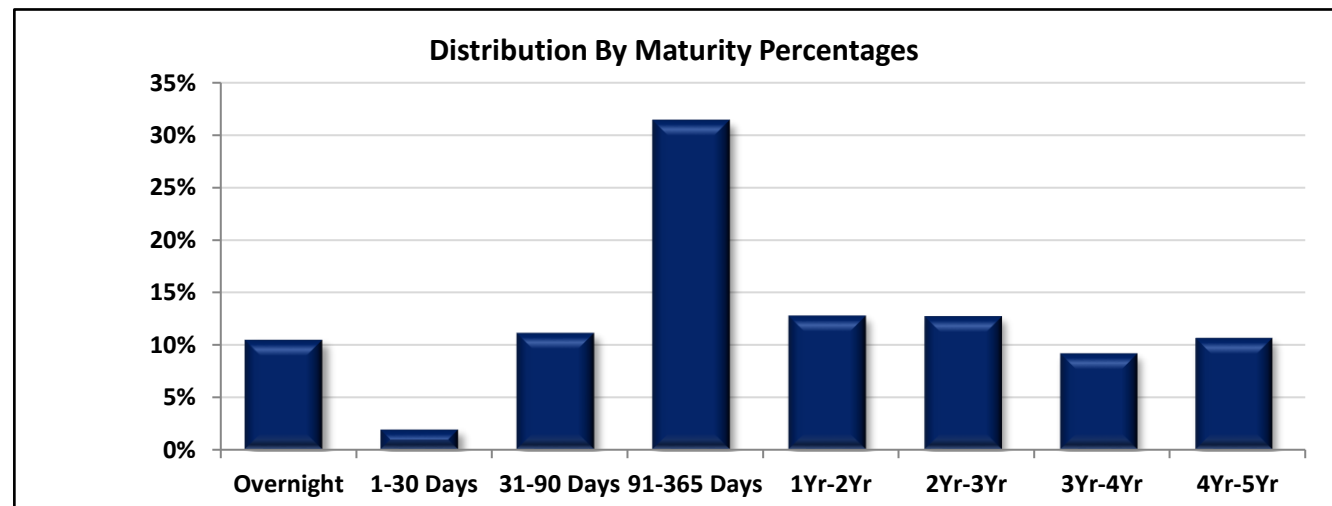
Distribution by Maturity

March 31, 2020

Maturity	Amount*
Overnight	884,959,458
1-30 Days	159,041,530
31-90 Days	942,508,398
91-365 Days	2,666,226,427
1Yr-2Yr	1,082,964,863
2Yr-3Yr	1,077,620,136
3Yr-4Yr	778,533,450
4Yr-5Yr	902,368,568
	8,494,222,830



Maturity	Amount*
Overnight	10.42%
1-30 Days	1.87%
31-90 Days	11.10%
91-365 Days	31.39%
1Yr-2Yr	12.75%
2Yr-3Yr	12.69%
3Yr-4Yr	9.17%
4Yr-5Yr	10.62%
	100.00%



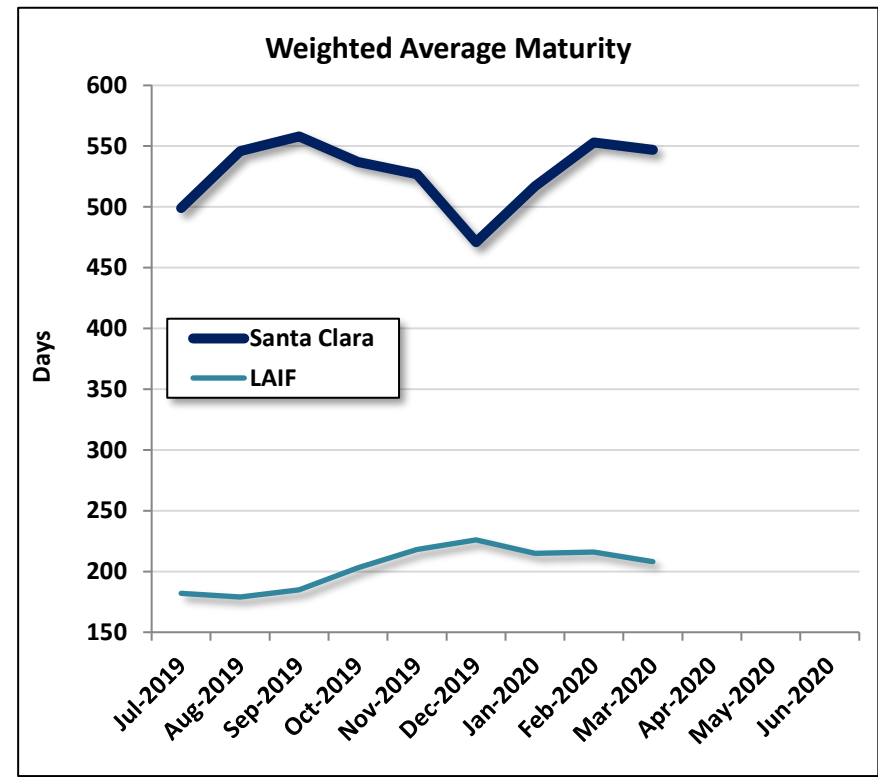
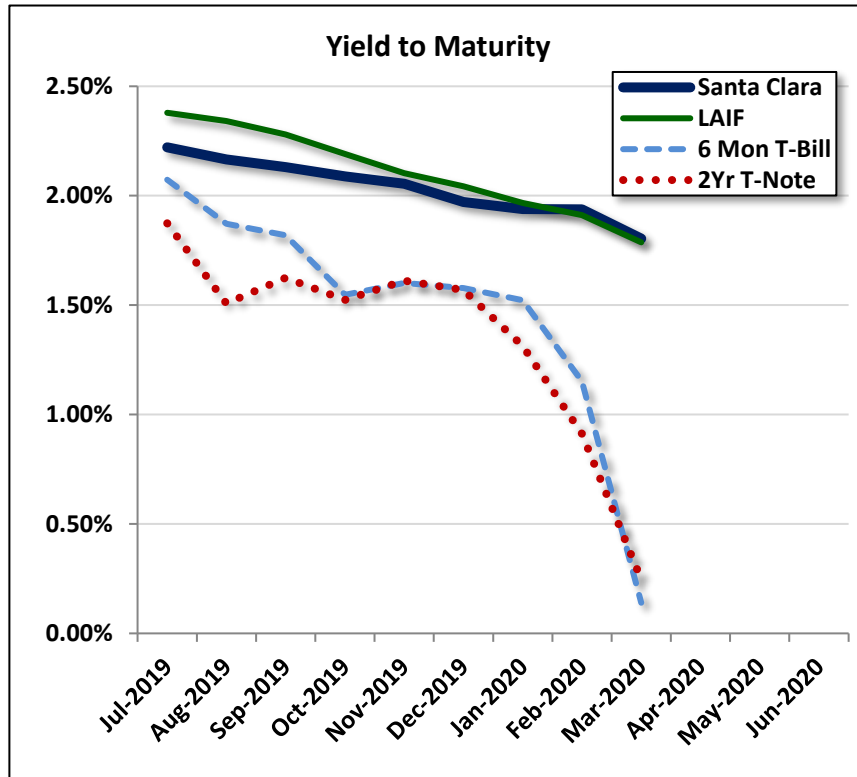
*Amounts are based on book value



Santa Clara County Commingled Pool

Yield to Maturity and Weighted Average Maturity

March 31, 2020



Item	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
SCC YTM	2.22%	2.17%	2.13%	2.09%	2.05%	1.97%	1.94%	1.94%	1.80%			
LAIF YTM	2.38%	2.34%	2.28%	2.19%	2.10%	2.04%	1.97%	1.91%	1.79%			
6 Mon T-Bill	2.07%	1.87%	1.82%	1.55%	1.60%	1.58%	1.52%	1.15%	0.14%			
2Yr T-Note	1.87%	1.51%	1.62%	1.52%	1.61%	1.57%	1.31%	0.91%	0.25%			
SCC WAM	499	546	558	537	527	471	517	553	547			
LAIF WAM	182	179	185	203	218	226	215	216	208			



Santa Clara County

Approved Issuers and Broker/Dealers

March 31, 2020

Direct Commercial Paper Issuers

Toyota Motor Credit
US Bank, NA

Broker/Dealers

Academy Securities, Inc
Bank of America Merrill Lynch
Barclays Capital, Inc
BMO Capital Markets
BNP Paribas Securities Corp
BNY Mellon Capital Markets, LLC
BOK Financial Securities (Bank of Oklahoma)
Brean Capital LLC
Cantor Fitzgerald & Co
Citigroup Global Markets Inc
Daiwa Capital Markets America Inc
Deutsche Bank Securities Inc
Incapital LLC
Jefferies & Co
JP Morgan Securities, Inc
Keybanc Capital Markets, Inc
Loop Capital Markets LLC
Mizuho Securities USA, Inc
MUFG Securities USA LLC
Raymond James, Inc.
RBC Capital Markets, Inc
UBS Financial Services Inc
Vining Sparks LP
Williams Capital

Santa Clara County Commingled Pool
Compliance with Investment Policy
March 31, 2020



Item/Sector	Parameters	In Compliance
Maturity	Weighted Average Maturity (WAM) must be less than 24 months	Yes
Interest Periods	Securities must pay interest within one year of the initial investment and at least semiannually in subsequent years	Yes
Investment Swaps	Similar maturity swaps, so as not to affect cash flow needs, should have minimum 5 basis point gain	Yes
Issuer Limits	No more than 5% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, CP, Negotiable CDs, and Corporate Notes	Yes
U.S. Treasuries	No sector limit, no issuer limit, max maturity 5 years	Yes
U.S. Federal Agencies	No sector limit, no issuer limit, max maturity 5 years	Yes
LAIF	No sector limit, no issuer limit, CA State's deposit limit \$65 million	Yes
Repurchase Agreements	No sector limit, no Issuer limit, max maturity 92 days, treasury and agency collateral at 102% of investment, if maturity exceeds 15 days, must be collateralized by securities with 5 years or less maturities	Yes
Commercial Paper	Sector limit 40%, issuer limit 5%, max maturity 270 days, rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), issued by domestic corporation w/ at least \$500 mil of assets, and long term debt rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's)	No
Corporate Bonds	Sector limit 30%, issuer limit 5%, max maturity 5 years, rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's), issued by domestic corps/depositories	Yes
Money Market Funds	Sector limit 20%, issuer limit 10%, rated by at least two: AAA-m (S&P/Fitch)/Aaa-mf (Moody's), MMF has at least \$500 mil managed	Yes
Negotiable Certificates of Deposit	Sector limit 30%, issuer limit 5%, max maturity 5 years, if under 1 year rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), if greater than 1 year rated by at least two: AA- (S&P/Fitch)/Aa3 (Moody's)	Yes
Municipal Securities	Sector limit 10%, no issuer limit, State of CA, local CA agencies, and other municipal securities of the other 49 states, if long-term rated, then by at least two: A- (S&P/Fitch)/A3 (Moody's), if short-term rated, then by at least two: SP-1 (S&P), MIG-1 (Moody's), F-1 (Fitch), revenue based bonds payable solely out of the States' or local agencies' revenues	Yes
Mortgage-Backed Securities	Sector limit 20% in aggregate with ABS, no issuer limit, max maturity 5 years, collateralized by pools of conforming residential mortgage loans insured by FHLMC/FNMA and residential mortgages guaranteed by FHA (GNMA)	Yes
Asset-Backed Securities	Sector limit 20% in aggregate with ABS, no issuer limit, max maturity 5 years, collateralized by pools of loans such as installment/receivables, security must be rated by at least two: AA- (S&P/Fitch), Aa3 (Moody's), issuer rated by at least two: A- (S&P/Fitch), A3 (Moody's)	Yes
Supranational Debt Obligations	Sector limit 10%, max maturity 5 years, issued or unconditionally guaranteed by the IBRD, rated by at least two: AAA (S&P/Fitch), Aaa (Moody's)	Yes
Bankers' Acceptances	Sector limit 40%, issuer limit 5%, max maturity 180 days, rated by at least two: A-1 (S&P), P-1 (Moody's), F-1 (Fitch), issued by commercial banks , collateral must exceed market value of security by 2%	Yes, None in Portfolio
Securities Lending	Sector limit 20%, max maturity 92 days for loans and reinvestment, loan counterparty must be a primary dealer, loaned securities must be owned for at least 30 days	Yes, None in Portfolio

Santa Clara County Commingled Pool
Compliance with Investment Policy
March 31, 2020



Compliance Notes

One commercial paper investment was purchased with a maturity greater than the allowed 270 days limit outlined in California Code and the Investment Policy, and thus was not in compliance at March 31, 2020. The investment is commercial paper issued by Coca Cola. The investment will be in compliance as of April 28th, whereby the breach will be cured. This purchase does not elevate, in any noteworthy way, the interest rate risk or credit risk of the Pool. Coca Cola is a strong company and considered defensive in a recessionary economic environment. It did not make sense to sell the Coca Cola commercial paper given volatile market conditions. Pursuant to the Investment Policy, the Treasury Department is not forced to sell a security into an adverse market. The Coca Cola commercial paper purchased was less than 1 percent of current book value and at time of acquisition.



Santa Clara County Commingled Pool

Allocation by Security Types

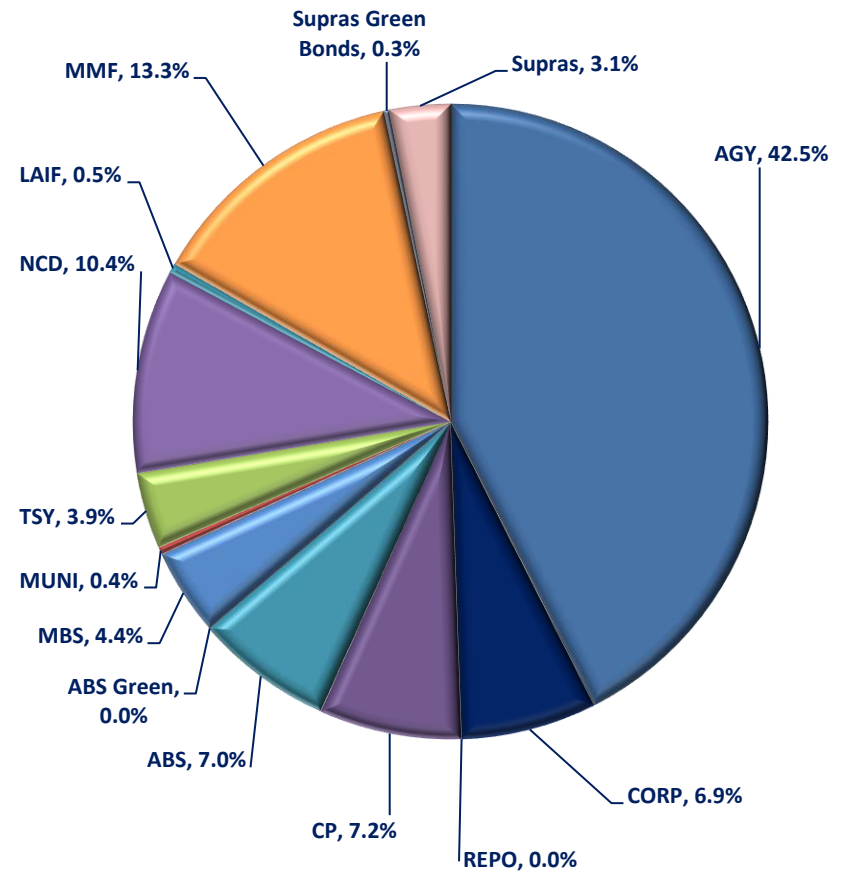
For the Month Ended January 31, 2020

Average Daily Balance	\$ 8,917,307,315.10
Book Yield	1.939%
Weighted Average Maturity	517 Days

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,608.03	\$ 3,609.29	\$ 3,630.98
Corporate Bonds	580.68	583.01	590.39
Repurchase Agreements	-	-	-
Commercial Paper	621.50	618.03	618.56
Asset-Backed Securities	593.63	593.51	598.84
Asset-Backed Sec Green Bds	-	-	-
Mortgage Backed Securities	369.55	369.84	378.50
Municipal Securities	31.39	31.42	31.57
U.S. Treasuries	330.00	329.98	331.18
Negotiable CDs	885.00	885.00	885.47
LAIF	42.55	42.55	42.55
Money Market Funds	1,137.36	1,137.36	1,137.36
Supranationals Green Bonds	25.00	25.00	25.01
Supranationals	262.00	262.86	264.00
Total	\$ 8,486.69	\$ 8,487.85	\$ 8,534.41

*Represents Amortized Book Value

Asset Allocation By Market Value





Santa Clara County Commingled Pool

Allocation by Security Types

For the Month Ended February 29, 2020

Average Daily Balance	\$ 8,404,417,346.65
Book Yield	1.936%
Weighted Average Maturity	553 Days

Investment Type	Par Value (Millions)	Book Value* (Millions)	Value (Millions)
Federal Agencies	\$ 3,344.66	\$ 3,346.41	\$ 3,381.90
Corporate Bonds	623.65	627.03	638.01
Repurchase Agreements	-	-	-
Commercial Paper	623.00	619.75	620.62
Asset-Backed Securities	658.17	658.03	666.11
Asset-Backed Sec Green Bds	-	-	-
Mortgage Backed Securities	368.48	368.76	380.36
Municipal Securities	31.39	31.42	31.68
U.S. Treasuries	330.00	330.10	332.85
Negotiable CDs	840.00	840.00	841.49
LAIF	42.55	42.55	42.55
Money Market Funds	1,067.91	1,067.91	1,067.91
Suprationals Green Bonds	25.00	25.00	25.01
Suprationals	262.00	262.83	264.61
Total	\$ 8,216.81	\$ 8,219.78	\$ 8,293.11

*Represents Amortized Book Value

Asset Allocation By Market Value

