

NEW ISSUE -- FULL BOOK-ENTRY

Moody's Rating: "Aa3"

See "Rating" herein

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 Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals; however, such interest may be subject to the corporate alternative minimum tax imposed on corporations. 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" herein.

\$19,300,000*

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
ELECTION OF 2026 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 2026 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 June 2, 2026, at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of \$142,000,000 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, without limitation as to rate or amount, upon all property within the District subject to taxation by the District (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 Bonds accrues from their date of delivery and is payable on February 1, 2027, and semiannually thereafter on February 1 and August 1 of each year. Payments of principal of and interest on the Bonds will be paid by U.S. Bank Trust Company, 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 Norton Rose Fulbright US LLP, Los Angeles, 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 November 3, 2026.**

RAYMOND JAMES®

This Official Statement is dated _____, 2026.

* Preliminary, subject to change

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE

\$19,300,000*
FRANKLIN-MCKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
Election of 2026 General Obligation Bonds,
Series A

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP®†
	\$	%	%		353856

\$ _____ % Term Bond due August 1, 20__ – Yield _____ % – Price _____
CUSIP®† 353856 ____

c = priced to call at par on August 1, 20__

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** Preliminary, subject to change*

FRANKLIN-MCKINLEY SCHOOL DISTRICT
Santa Clara County, California

BOARD OF EDUCATION

Hong Ha Hoang, President
Steven Sanchez, Vice President
Rudy Rodriguez, Clerk
Marc Cooper, Member
George Sanchez, Member

DISTRICT ADMINISTRATION

Juan Cruz, Superintendent
Jason Vann, Assistant Superintendent, Business Services
Maria Bonilla Ledezma, Director, Fiscal Services

BOND COUNSEL AND DISCLOSURE COUNSEL

Parker & Covert LLP
Sacramento, California

MUNICIPAL ADVISOR

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

PAYING AGENT

U.S. Bank Trust Company, 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 overallocate 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.

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OFFICIAL STATEMENT

\$19,300,000*

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
(Santa Clara County, California)
ELECTION OF 2026 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 2026 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 transitional kindergarten (“TK”) through eighth grade. 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”). As of July 1, 2026, the District operates ten elementary schools and three middle schools. The District’s average daily attendance (“ADA”) is budgeted to be 4,950 students for the current fiscal year 2026-27. The District’s assessed valuation for fiscal year 2026-27 is \$14,946,008,375. 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 on 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.

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, consistent with the school facilities

* Preliminary, subject to change

projects set forth in the ballot measure approved by the District’s voters at an election held on June 2, 2026 (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 on September 8, 2026. 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.

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, Exchange 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 Bonds accrues from the Date of Delivery, and is payable semiannually on each February 1 and August 1, commencing February 1, 2027 (each, a “Bond Payment Date”). Principal of the

* Preliminary, subject to change

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 Trust Company, 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 Bonds is excludable from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. Interest on the Bonds is included in adjusted financial statement income in order to compute alternative minimum tax for certain corporations. 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 the Bonds or the accrual or receipt of such interest. 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 November 3, 2026.*

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 municipal 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 Norton Rose Fulbright US LLP, Los Angeles, California. U.S. Bank Trust Company, National Association will act as Paying Agent for the Bonds.

* Preliminary, subject to change

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).

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THE BONDS

Authority for Issuance

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 October 1, 2026 by and between the District and the Paying Agent, (the “Paying Agent Agreement”), and a resolution adopted by the Board of Education on September 8, 2026 (the “District Resolution”).

The District received authorization at an election held on June 2, 2026, by more than the requisite 55% or more of the votes cast by eligible voters of the District to issue \$142,000,000 aggregate principal amount of general obligation bonds (the “2026 Authorization”). The Bonds are the first series of bonds issued under the 2026 Authorization. Following the issuance thereof, there will be \$122,700,000* remaining under the 2026 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 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

* Preliminary, subject to change

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 Bonds accrues from the Date of Delivery and is payable semiannually on each Bond Payment Date, commencing February 1, 2027. 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 Bond on any Bond Payment 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 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.

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Annual Debt Service

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

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

<u>Total</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
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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 or 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 on August 1, 20__ and August 1, 20__ (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 together with accrued interest to the date fixed for redemption, without premium.

20 Term Bonds

Mandatory Redemption Date (August 1)	Mandatory Redemption Payments
*	\$

* Final Maturity

20 Term Bonds

Mandatory Redemption Date (August 1)	Mandatory Redemption Payments
*	\$

* Final Maturity

In the event that a portion of any Term Bonds are 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 Bonds 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 “The Bonds—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 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 takes 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 3.5 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, tenders, defaults, and proposed amendments to the 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, distributions, and dividend payments 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, distributions, and dividend payments 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 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.

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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, consistent with the school facilities projects set forth in the ballot measure approved by the District's voters at an election held on June 2, 2026 (see "The Bonds – Authority for Issuance"), including, modernization of outdated school facilities, campus safety and security improvements, repairs or replacement of heating, ventilation, air conditioning and electrical systems, and upgrades to classroom to support instructional technology, 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 2026 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 2026 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 2026 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.

Costs of Issuance Fund A portion of the proceeds from the sale of the Bonds will be deposited into a costs of issuance fund (the "Costs of Issuance Fund") to be created and maintained by the Paying Agent pursuant to the Paying Agent Agreement to pay costs associated with the issuance of the Bonds. The moneys in the Costs of Issuance Fund will be held in cash, uninvested. Any proceeds of the sale of the Bonds deposited in the Costs of Issuance Fund not needed to pay the costs of issuance of the Bonds will be transferred to the Debt Service Fund to be used to pay debt service on the Bonds.

Investment of Proceeds. Moneys in the Building Fund and the Debt Service Fund 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 Base for Repayment of Bonds – 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 TK-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 2026-27 of \$14,946,008,375. The following table shows a 10-year history of assessed valuations in the District.

ASSESSED VALUATION Fiscal Year 2017-18 through Fiscal Year 2026-27 Franklin-McKinley School District

Fiscal Year	Local Secured	Utility	Unsecured	Total
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
2020-21	10,759,651,398	6,345,091	417,965,312	11,183,961,801
2021-22	11,169,735,096	4,528,771	434,127,589	11,608,391,456
2022-23	12,074,266,774	4,011,283	459,126,462	12,537,404,519
2023-24	12,643,161,361	3,962,361	470,946,309	13,118,070,031
2024-25	13,221,334,334	3,962,361	504,525,423	13,729,822,118
2025-26	13,777,512,318	3,962,361	494,821,121	14,276,295,800
2026-27	14,372,438,948	3,962,361	569,607,066	14,946,008,375

Source: California Municipal Statistics, Inc.

Risk of Decline in Assessed Values

Assessed valuations are subject to increase or decreases in each year for a variety of reasons beyond the District's control, including, but not limited to, general economic conditions, supply and demand for real property, government regulations concerning land use, and natural disasters. The District makes no predictions or representations regarding the effects of any such circumstances on taxable property within the District, or the impacts of such circumstances on the local and State economic conditions. A reduction of the assessed valuation of property in the District could necessitate an unanticipated corresponding increase in tax rates. See "The Bonds – Security and Sources of Payment" and "Tax Base for Repayment of Bonds—Tax Rates" herein.

Earthquake. The District is located in the seismically active San Francisco Bay Area, between the San Andreas Fault, Hayward Fault, and Calaveras Fault. The U.S. Geological Survey estimates a 14.3% chance of a magnitude 6.7 or larger event on the Hayward Fault by 2034 and a 33% chance before 2043. If a large earthquake were to occur in such areas, property within the District would sustain extensive damage and could adversely affect the area's economic activity. The District does not make any representations regarding the extent to which any earthquake could cause damage and reduce economic activity within the boundaries of the District or the extent to which any earthquake has had or may have in the future on the value of taxable property within the District.

Drought. In recent years, the State has experienced severe drought conditions. While the most recent period of severe statewide drought (2012 through 2016) adversely affected agriculture, the general economy of the State was not significantly affected. As of August 6, 2026, much of the eastern and northern parts of the State, excluding the County, was in abnormally dry conditions, but not in drought status according to the U.S. Drought Monitor. It is not possible for the District to make any representation regarding the extent to which drought conditions in the future could cause reduced economic activity within the boundaries of the District or the extent to which a drought has had or may have in the future on the value of taxable property within the District.

Flood. Generally, the District is at low risk of flooding. However, portions of the District may be susceptible to flood risk, especially the portions near Coyote Creek, according to the Federal Emergency

Management Agency. The District could be at risk of flooding or flash floods as a consequence of earthquakes, wildfires, excessive rain, and numerous other causes. It is not possible for the District to make any representation regarding the extent to which flooding could cause reduced economic activity within the District or the extent to which flooding may impact the value of taxable property within the District.

Wildfire. In recent years, portions of the State, including the County and adjacent counties, have experienced wildfires that have burned millions of acres and destroyed thousands of homes and structures. According to the California Fire Hazard Severity Zone Map, the District itself is not in a fire hazard zone, but areas at risk of moderate to very high fire hazards are located to the east, west, and south of the District. Property damage due to wildfire (or subsequent flooding or mudslides) could result in a significant decrease in the assessed value of property in the District. It is not possible for the District to make any representation regarding the extent to which wildfires could cause reduced economic activity within the boundaries of the District or the extent to which wildfires may impact the value of taxable property within the District.

Climate Change. Long term shifts in the Earth's temperature and weather patterns are generally referred to as "climate change." It is expected that, among other things, climate change will result in sea level rise and an increase in the frequency of extreme weather events, including, but not limited to, wildfires, drought, and flooding. More frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems, and social systems over the next 25 to 100 years. The District cannot predict what impact climate change will have on property values in the District.

Proposition 19. Proposition 19, approved by voters of the State at the election held on November 3, 2020, is a State constitutional amendment that changes the manner of assessment of property when it is transferred between parents and children. Under prior law, reassessment was not triggered by such transfers, but Proposition 19 generally would result in a reassessment. The District cannot predict the impact Proposition 19 may have in the future on the value of taxable property within the District. See "The Bonds – Security and Sources of Payment" and "Constitutional and Statutory Provisions Affecting District Revenues and Appropriations – Article XIII A of the State Constitution."

Public Health Emergencies. In late 2019, an outbreak of a respiratory disease caused by a new strain of coronavirus ("COVID-19") resulted in an ongoing global public health crisis. The federal and State governments both declared public health emergencies and took action, along with local governments, to limit the spread of the outbreak and reduce the resulting economic impact. Nevertheless, as a result of the COVID-19 pandemic, there have been adverse and volatile financial and economic impacts worldwide. Although the public emergencies have ended, and COVID-19 is generally believed to have transitioned from the pandemic stage to the endemic stage, investors are cautioned that, at this time, the District cannot predict the extent or duration or the impacts that COVID-19, or any other public health emergency that may arise, may have on its operations and finances, enrollment and average daily attendance ("ADA"), property values in the District, and economic activity in the District and the State. Additionally, the District cannot predict how future responses by federal, State or local authorities to COVID-19 or any other public health emergency 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 cannot predict whether future pandemics or other public health emergencies will emerge and whether or how such pandemics or health emergencies may impact the District's finances and operations.

Other. Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., general market decline in real property values, disruption in financial markets that may reduce availability of financing for purchasers of property, disruption of the economy due to a global health crisis, or reclassification of property to a class exempt from taxation, whether by

ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable, or religious purposes).

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 2026-27 assessed valuation.

PER PARCEL ASSESSED VALUATION OF SINGLE-FAMILY HOMES

Fiscal Year 2026-27

Franklin-McKinley School District

	No. of Parcels	2026-27 Assessed Valuation		Average Assessed Valuation		Median Assessed Valuation
Single Family Residential	9,888	\$5,971,065,585		\$603,870		\$540,772
2026-27 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0-\$99,999	474	4.794%	4.794%	\$32,255,747	0.540%	0.540%
\$100,000-\$199,999	592	5.987	10.781	92,398,176	1.547	2.088
\$200,000-\$299,999	922	9.324	20.105	234,947,266	3.935	6.022
\$300,000-\$399,999	1,367	13.825	33.930	478,223,796	8.009	14.031
\$400,000-\$499,999	1,171	11.843	45.773	524,856,102	8.790	22.821
\$500,000-\$599,999	1,013	10.245	56.017	556,536,930	9.321	32.142
\$600,000-\$699,999	913	9.233	65.251	591,583,914	9.908	42.049
\$700,000-\$799,999	687	6.948	72.199	514,108,115	8.610	50.659
\$800,000-\$899,999	676	6.837	79.035	575,235,051	9.634	60.293
\$900,000-\$999,999	616	6.230	85.265	584,343,260	9.786	70.079
\$1,000,000-\$1,099,999	485	4.905	90.170	507,516,561	8.500	78.579
\$1,100,000-\$1,199,999	328	3.317	93.487	376,115,523	6.299	84.878
\$1,200,000-\$1,299,999	231	2.336	95.823	288,783,553	4.836	89.714
\$1,300,000-\$1,399,999	176	1.780	97.603	236,395,101	3.959	93.673
\$1,400,000-\$1,499,999	113	1.143	98.746	162,778,581	2.726	96.400
\$1,500,000-\$1,599,999	51	0.516	99.262	78,859,229	1.321	97.720
\$1,600,000-\$1,699,999	21	0.212	99.474	34,551,724	0.579	98.299
\$1,700,000-\$1,799,999	20	0.202	99.676	35,157,877	0.589	98.888
\$1,800,000-\$1,899,999	11	0.111	99.788	20,131,407	0.337	99.225
\$1,900,000-\$1,999,999	8	0.081	99.869	15,500,951	0.260	99.484
\$2,000,000 and greater	13	0.131	100.000	30,786,721	0.516	100.000
TOTAL	9,888	100.000%		\$5,971,065,585	100.000%	

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

Source: California Municipal Statistics, Inc.

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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 2026-27 assessed valuation of such parcels.

SECURED ROLL ASSESSED VALUATION AND PARCELS BY LAND USE

Fiscal Year 2026-27

Franklin-McKinley School District

	2026-27 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non Residential:				
Commercial/Office	\$1,319,103,846	9.18%	613	3.01%
Industrial	1,950,515,960	13.57	613	3.01
Recreational	169,810,269	1.18	3	0.01
Government/Social/Institutional	16,122,525	0.11	151	0.74
Miscellaneous/Water Company	109,860,836	0.76	36	0.18
Subtotal Non-Residential	\$3,565,413,436	24.81%	1,416	6.95%
Residential:				
Single-Family Residence	\$5,971,065,585	41.55%	9,888	48.53%
Condominium/Townhouse	3,319,559,855	23.10	5,455	26.77
Mobile Home	196,669,848	1.37	2,321	11.39
2-4 Residential Units	390,535,144	2.72	609	2.99
5+ Residential Units/Apartments	826,186,477	5.75	338	1.66
Subtotal Residential	\$10,704,016,909	74.48	18,611	91.33
Vacant Parcels	\$103,008,603	0.72%	350	1.72%
Total	\$14,372,438,948	100.00%	20,377	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 2026-27 assessed valuation of the District by jurisdiction.

ASSESSED VALUATION BY JURISDICTION

Fiscal Year 2026-27

Franklin-McKinley School District

Jurisdiction:	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of San Jose	\$14,904,210,716	99.72%	\$278,654,136,491	5.35%
Unincorporated Santa Clara County	41,797,659	0.28%	\$26,660,619,272	0.16%
Total District	\$14,946,008,375	100.00%		
Santa Clara County	\$14,946,008,375	100.00%	\$758,717,345,720	1.97%

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 2020-21 through 2024-25 (most current data available).

SECURED TAX CHARGES AND DELINQUENCIES Fiscal Years 2020-21 through 2024-25 Franklin-McKinley School District

Fiscal Year	Secured Tax Charges ⁽¹⁾	Amount Delinquent June 30	% Delinquent June 30
2020-21	\$10,927,040.27	\$134,020.33	1.23%
2021-22	11,270,117.31	146,671.38	1.30
2022-23	8,914,562.85	65,513.87	0.73
2023-24	12,035,280.51	209,459.08	1.74
2024-25	10,986,391.02	132,074.67	1.20

⁽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, property owners may have an inability or may be unwilling to pay property taxes because of 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 outbreak of disease, or natural or manmade disaster. Furthermore, the District cannot predict the impact, if any, that changes or modifications to property tax collection procedures, 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.

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 2021-22 through 2025-26.

TYPICAL TAX RATES PER \$100 OF ASSESSED VALUATION (TRA 17-031)⁽¹⁾

Fiscal Years 2021-22 through 2025-26 Franklin-McKinley School District

	2021-22	2022-23	2023-24	2024-25	2025-26
County General Rate	1.00000	1.00000	1.00000	1.00000	1.00000
County Retirement Levy	.03880	.03880	.03880	.03880	.03880
County Hospital Bonds	.00610	.00630	.00550	.00550	.00520
County Housing Bonds	.01266	.01080	.00950	.00430	.00560
Franklin-McKinley School District	.10120	.07460	.09530	.08330	.08030
East Side Union High School District	.09950	.09630	.08960	.08940	.08380
San Jose Community College District	.03220	.03070	.02670	.02690	.02410
City of San Jose	.02070	.01910	.01670	.01570	.01970
Total All Property Tax Rate	1.31116	1.27660	1.28210	1.26390	1.25750
Santa Clara Valley Water District:					
State Water Project	.0051	.0044	.0041	.0041	.0039
Total Land and Improvement Tax Rate	.0051	.0044	.0041	.0041	.0039

⁽¹⁾ The 2025-26 assessed valuation of TRA 17-031 is \$4,477,458,058 which is 31.36% of the District’s total assessed valuation.

Source: *California Municipal Statistics, Inc.*

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Principal Taxpayers

The following table lists the 20 largest local secured taxpayers in the District in terms of their fiscal year 2026-27 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 2026-27

Franklin-McKinley School District

	Property Owner	Primary Land Use	2026-27 Assessed Valuation	% of Total ⁽¹⁾
1.	Greenery Rosewalk LLC	Apartments	\$182,767,962	1.27%
2.	San Jose Arena Management LLC	Recreational	162,652,274	1.13
3.	BCDPF Little Orchard Business Park LP	Industrial	103,642,876	0.72
4.	TPSC Owner LLC	Shopping Center	96,900,000	0.67
5.	GS Tully Road LLC	Apartments	90,917,759	0.63
6.	San Jose Water Works	Water Company	81,675,104	0.57
7.	Essex Bella Villagio LP	Apartments	71,303,009	0.50
8.	BPP Pacific Industrial CA	Industrial	59,781,774	0.42
9.	Asian Square Inc.	Shopping Center	57,185,949	0.40
10.	LIT McLaughlin LP	Industrial	53,838,391	0.37
11.	Realty Income Props 14 LLC	Shopping Center	53,550,000	0.37
12.	Carlisle Associates Ltd.	Apartments	52,735,103	0.37
13.	Helzer Associates, LP	Apartments	52,545,202	0.37
14.	HKN IV LLC	Shopping Center	50,955,280	0.35
15.	Target Corporation	Commercial	46,383,390	0.32
16.	Janice M. Fiore, Trustee	Shopping Center	43,444,749	0.30
17.	CIP Tully LLC	Industrial	40,800,000	0.28
18.	HO Enterprise LLC	Industrial	40,143,729	0.28
19.	Robinson Oil Company	Industrial	39,611,700	0.28
20.	MHC California Hawaiian LP	Apartments	39,323,614	0.27
			<u>\$1,420,157,865</u>	<u>9.88%</u>

⁽¹⁾ 2026-27 Local Secured Assessed Valuation: \$14,372,438,948.

Source: California Municipal Statistics, Inc.

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Statement of Direct and Overlapping Debt

Set forth on the following page is a direct and overlapping debt report with respect to debt as of September 1, 2026 (the “Debt Report”) prepared by California Municipal Statistics, Inc. 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

2026-27 Assessed Valuation: \$14,946,008,375

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable⁽¹⁾</u>	<u>Debt 9/1/26</u>
Santa Clara County	1.971%	\$22,289,054
San Jose-Evergreen Community College District	6.439	56,135,498
East Side Union High School District	12.219	75,281,168
Franklin-McKinley School District	100.	167,477,629⁽²⁾
City of San Jose	5.336	34,225,371
Santa Clara Valley Water District Benefit Assessment District	1.971	402,577
Santa Clara Valley Water District Parcel Tax Bonds	1.971	2,290,893
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$358,102,190
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	1.971%	\$25,891,135
Santa Clara County Pension Obligation Bonds	1.971	6,017,241
Santa Clara County Board of Education Certificates of Participation	1.971	210,238
San Jose-Evergreen Community College District Pension Obligations	6.439	2,924,594
East Side Union High School District Pension Obligation Bonds	12.219	2,584,319
Franklin McKinley School District General Fund Obligations	100.	9,355,000
City of San Jose General Fund Obligations	5.336	32,371,644
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$79,334,171
Less: Santa Clara County supported obligations		37,449
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$79,296,722
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>		\$19,716,034
 GROSS COMBINED TOTAL DEBT:		\$457,152,395⁽³⁾
NET COMBINED TOTAL DEBT:		\$457,114,946

⁽¹⁾ 2025-26 ratios.

⁽²⁾ Excludes issue to be sold.

⁽³⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2026-27 Assessed Valuation:

Direct Debt (\$167,477,629)	1.12%
Total Direct and Overlapping Tax and Assessment Debt	2.40%
Combined Direct Debt (\$176,812,629)	1.18%
Gross Combined Total Debt.....	3.06%
Net Combined Total Debt	3.06%

Ratios to Redevelopment Incremental Valuation (\$1,004,008,081):

Total Overlapping Tax Increment Debt	1.96%
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Source: California Municipal Statistics, Inc.

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.

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 XIIB 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 XIIB 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 XIIC and Article XIID 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 XIIC and XIID (respectively, “Article XIIC” and “Article XIID”), 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 XIIC 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 XIIC 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 XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID 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 XIIC 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 XIID. 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, 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 XIIB 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.

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 2031. 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 Grade 12 Schools and Local Community College Public Education Facilities Modernization, Repair, and Safety Bond Act of 2024

The Kindergarten Through Grade 12 Schools and Local Community College Public Education Facilities Modernization, Repair, and Safety Bond Act of 2024 (hereinafter “2024 Statewide Bond Measure”) was approved by voters on November 4, 2024. The 2024 Statewide Bond Measure authorizes the sale and issuance of \$10 billion in general obligation bonds for the new construction and modernization of TK-14 facilities. The District makes no guarantee that it will either pursue or qualify for 2024 Statewide Bond Measure state facilities funding, allocated through the School Facility Program administered by the Office of Public School Construction.

TK-12 School Facilities. The 2024 Statewide Bond Measure will provide \$8.5 billion for TK-12 school districts for new construction and modernization projects as follows: \$4 billion for repairs, replacements of portables at least 20 years old, and other modernization work; \$3.3 billion for new construction; \$600 million for facilities for career technical education programs; \$600 million for facilities for charter schools; and \$115 million to remove lead from school drinking water. Of the TK-12 portion of the 2024 Statewide Bond Measure, 10% of funding for modernization and new construction will be set aside for small school districts, defined as those with fewer than 2,501 students. The 2024 Statewide Bond Measure also expands financial hardship assistance for small school districts whose tax bases are too low to issue general obligation bonds. The 2024 Statewide Bond Measure will also provide funding to school districts for supplemental money to build gyms, all-purpose rooms, or kitchens in schools that lack such facilities.

Miliani R. v. State of California. On October 23, 2025, named plaintiff, an 18-year old high school student, along with other students, parents, and teachers, filed a lawsuit against the Office of Public School Construction and the California Department of Education, alleging that the funding formula under the School Facility Program violates the California Constitution. Plaintiffs argue that requiring 40% local matching funds to access State modernization grants violates educational equity by favoring wealthy school districts over property-poor, low-income school districts. Plaintiffs are asking for a redesign of the funding formula under the School Facility Program to ensure equitable access to safe, modern school facilities. In July 2026, the court denied the plaintiffs’ request for a temporary injunction that would have frozen over \$3 billion in State school construction funds. However, the judge’s ruling noted that the plaintiffs showed a “reasonable probability of succeeding on the merits” regarding their equal protection claims under the State Constitution as the case moves toward trial. A case management conference for the *Miliani* matter is currently scheduled for October 2026. The District cannot predict the outcome of *Miliani* nor how a judgment in favor of plaintiffs would impact the District’s access to modernization funding through the School Facility Program.

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.

On the ballot for November 2026 are two statewide propositions. If passed, Proposition 3 would amend the State Constitution to make permanent the State’s top marginal tax rates on higher incomes, which are set to expire in 2031 (see “Proposition 30 and Proposition 55” above). Proposition 3 would maintain that the revenue generated from the increased marginal tax would be divided, with 89% to K-12 schools and 11% to state community colleges, and deposited into the EPA. If passed, Proposition 43 would amend

the State Constitution to require that local ballot measures proposing, extending, or increasing special taxes initiated by citizens receive a two-thirds (66.67%) vote to be enacted. In addition, Proposition 43 would also prohibit any local government from levying *ad valorem* taxes on real property, including by ballot initiative, except for those authorized under Article XIII and Article XIII A (see “Article XIII A of the California Constitution” above).

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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 federal and State moneys, local property taxes and other funds received from the State in the form of categorical aid under ongoing programs. 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. 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 2026-27 Adjusted Base Grant per ADA is as follows: (i) \$11,811 for grades TK/K-3; (ii) \$10,860 for grades 4-6; and (iii) \$11,181 for grades 7-8. Following full implementation of the LCFF, in fiscal year 2019-20, the provision of cost-of-living adjustment ("COLA") are subject to appropriation for such adjustment in the annual State budget. After full implementation the differences among actual funding levels are linked to differentials in grade span counts and demographics (e.g., number of students living in a low income household, number of homeless students, and number of students with limited English proficiency and foster youth,) which are intended to recognize the generally higher costs of education at higher grade levels and student needs.

The Base Grant for grades TK/K-3 is subject to a 10.4% adjustment to cover the cost of class size reduction in early grades. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades TK-3 must maintain an average class enrollment of 24 or fewer students in grades TK-3 at each school site in order to continue receiving the adjustment to the TK-3 Base Grant. 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. In fiscal year 2022-23, school districts began receiving an add-on for costs related to implementing a ratio of one adult for every 12 pupils in TK classrooms. Beginning in fiscal year 2025-26, the TK ratio was reduced to one adult for every 10 pupils with a maximum average enrollment of 24 students for each school site.

Commencing with fiscal year 2023-24, the State introduced the LCFF Equity Multiplier (the “Equity Multiplier”), a targeted funding program designed to accelerate progress in closing opportunity and outcome gaps at qualifying school sites. To qualify, a school must have both (1) a prior year nonstability rate (i.e., the percentage of students who do not complete the year due to factors like expulsion) of greater than 25%, and (2) a prior year socioeconomically disadvantaged pupil rate (i.e., students with parents that do not have high school diplomas, students from low-income families, homeless youth, and foster youth) of greater than 70%. For each eligible schoolsite, a calculated statewide Equity Multiplier rate will be multiplied by each schoolsite’s adjusted cumulative enrollment for the prior year. The schoolsite will receive the product of this calculation, or the minimum entitlement, whichever is greater. For fiscal year 2026-27 each qualifying school will receive at least \$53,181. Equity Multiplier funding is required to be used to provide evidence-based services and supports for students at the qualifying schools. In fiscal year 2026-27, the District will receive Equity Multiplier funding.

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 (“Unduplicated Pupil Percentage”). School districts whose Unduplicated Pupil Percentage exceeds 55% of their total enrollment are eligible for a concentration grant add-on (each, a “Concentration Grant”) equal to 65% of the applicable Base Grant multiplied by the percentage of such district’s unduplicated EL/LI student enrollment in excess of the 55% threshold.

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The following table shows a breakdown of the District’s ADA by grade span, total enrollment, and the Unduplicated Pupil Percentage, for fiscal years 2021-22 through 2025-26 and budgeted amounts for fiscal years 2026-27 and 2027-28.

ADA, ENROLLMENT AND UNDUPLICATED PUPIL PERCENTAGE
Fiscal Years 2021-22 through 2027-28
Franklin-McKinley School District

Fiscal Year	Average Daily Attendance ⁽¹⁾				Total TK-8 District Enrollment ⁽²⁾	Unduplicated Pupil %
	(By Grade Span)					
	TK-3	4-6	7-8	Total District		
2021-22	2,347	1,883	1,366	5,596	6,196	81.21
2022-23	2,328	1,930	1,258	5,516	5,960	79.94
2023-24	2,305	1,901	1,202	5,408	5,779	77.51
2024-25	2,231	1,877	1,222	5,330	5,667	79.60
2025-26	2,159	1,747	1,213	5,119	5,491	83.63
2026-27 ⁽³⁾	2,098	1,698	1,154	4,950	5,236	87.01
2027-28 ⁽³⁾	2,055	1,556	1,081	4,692	4,963	84.74

⁽¹⁾ Reflects actual P-2 ADA for fiscal years 2021-22 through 2025-26. Although not shown above, based on the current LCFF, the funded ADA will be the higher of (i) a 3-year rolling average, or (ii) by taking the greater of the current year or the prior year. ADA amounts include both students taught in the District’s schools as well as students receiving educational services at the County Office of Education and Non-Public Schools. The County Office of Education and Non-Public Schools typically provide additional special educational services for District students that cannot be provided at District school sites.

⁽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 pupil percentage (“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 Unduplicated Pupil Percentage 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. The former dependent charter school (Bridges Academy) that was located within the boundaries of the District was converted back to a traditional public school in 2020-21. The students remained within the District in the year of conversion, and since fiscal year 2020-21, Bridges Academy has been included in District enrollment.

⁽³⁾ As of Adopted Budget for fiscal year 2026-27, approved by the Board on June 16, 2026.

Source: Franklin-McKinley School District

Prior to fiscal year 2022-23, the sum of a school district’s adjusted Base, Supplemental and Concentration Grants was multiplied by such district’s P-2 ADA for the current or prior year, whichever was greater (with certain adjustments applicable to small school districts). To help school districts with significant declining enrollment better serve remaining students, the 2022-23 State budget amended the LCFF calculation to allow the sum of a school district’s adjusted Base, Supplemental and Concentration Grants to be multiplied by such district’s P-2 ADA for the current year, prior year or average of three prior years, whichever is greater. The funding amount generated by this calculation, together with any applicable add-ons such as the Equity Multiplier, 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.

Certain school districts, known as “basic aid” or “community funded” 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 ten 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. LCAPs are required to be updated annually thereafter and reported at a regularly scheduled meeting of the governing board of a school district by February 28 of each year. The State Board of Education has developed and adopted a template LCAP for use by school districts.

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.

On June 30, 2025, the State Department of Education learned that the federal administration planned to withhold more than \$800 million in education funding for the State. At the end of July 2025, the federal government released the funding, intended for after-school programs, professional development for teachers, and adult education for English-language learning and high school equivalency courses. Such funding was released on condition that local educational agencies use the money in accordance with the U.S. Constitution and other federal non-discrimination laws. In addition, the federal government has terminated funding for various programs that support students with disabilities and special needs, as well as programs for special education teacher training. Further, the federal administration has taken steps to dismantle the U.S. Department of Education and to cut Medicaid, potentially harming disabled students. The proposed federal budget for fiscal year 2026-27 suggests additional cuts from fiscal year 2025-26 levels and elimination or consolidation of educational programs. Although the District expects to receive less federal funding than in previous years based on current information from the federal government, it is not anticipated to materially adversely impact the District’s budget. Notwithstanding such expectations, the District is unable to predict at this time what the effect on its budget will be following implementation of these funding cuts or the proposed elimination of the U.S. Department of Education.

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, through June 30, 2017. On November 8, 2016, the voters of the District authorized a renewal of such parcel tax commencing on July 1, 2017 for an additional nine years, through June 30, 2026 (the “Measure HH Parcel Tax”). On November 3, 2020, the voters of the District authorized the District to levy a separate special tax of \$72 per parcel for five years, through June 30, 2026 (the “Measure K Parcel Tax”). On November 5, 2024, the voters of the District authorized the District to levy a nine-year special tax of \$192 per parcel, through June 30, 2034 (the “Measure W Parcel Tax”). The Measure HH Parcel Tax and the Measure K Parcel Tax have expired, and the Measure W Parcel Tax is the only parcel tax being levied in the District. A parcel tax is a “special tax” under the State Constitution, requiring the approval of two-thirds of the voters voting on the measures. The Measure W Parcel Tax is levied uniformly on all taxable property in the District. The Measure W 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 Measure W Parcel Tax also provides an exemption for property owners who are 65 years and older. The purposes of the Measure W Parcel Tax approved by the voters in 2024 include enhancing reading, math, and science instruction; ensuring small class sizes; bringing back performing arts and music programs; and expanding reading, counseling and tutoring programs for at-risk students. The Measure HH Parcel Tax and the Measure K Parcel Tax each produced revenues in the amount of approximately \$1,200,000 in fiscal year 2025-26. In its initial year, the Measure W Parcel Tax generated approximately \$3,300,000 in fiscal year 2025-26 and is projected to generate approximately \$3,399,000 in the current fiscal year.

The Bonds are not payable from the Measure W Parcel Tax. 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.

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 2021-22 through 2025-26, and along with the budgeted amount for fiscal year 2026-27 as of the District’s adopted budget, approved by the Board on June 16, 2026 (the “Adopted Budget”).

DEVELOPER FEE COLLECTIONS
Fiscal Years 2021-22 through 2025-26, and Fiscal Year 2026-27 (Adopted Budget)
Franklin-McKinley School District

<u>Fiscal Year</u>	<u>Developer Fee Collections</u>
2021-22	\$81,134
2022-23	57,762
2023-24	38,140
2024-25	156,778
2025-26	277,973
2026-27 ⁽¹⁾	151,000

⁽¹⁾ As of Adopted Budget for fiscal year 2026-27.

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. A school

district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent of Schools in that fiscal year or in the next succeeding year.

In fiscal year 2024-25, the District was assigned a qualified certification for its first and second interim reports. For all other reporting periods in the past five years, and including the second interim report for fiscal year 2025-26, the District's interim reports have been certified as positive.

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Budgeting Trends. The table below summarizes the District’s adopted general fund budgets for fiscal years 2022-23 through 2026-27, audited ending results for fiscal years 2022-23 through 2024-25, and unaudited actuals for fiscal year 2025-26.

GENERAL FUND BUDGETING⁽¹⁾
Fiscal Years 2022-23 through 2026-27
Franklin-McKinley School District

	Fiscal Year 2022-23		Fiscal Year 2023-24		Fiscal Year 2024-25		Fiscal Year 2025-26		Fiscal Year 2026-27
	Adopted Budget ⁽²⁾	Audited Actuals ⁽²⁾	Adopted Budget ⁽²⁾	Audited Actuals ⁽²⁾	Adopted Budget ⁽²⁾	Audited Actuals ⁽²⁾	Adopted Budget ⁽³⁾	Unaudited Actuals ⁽⁴⁾	Adopted Budget ⁽⁵⁾
REVENUES									
LCFF	\$78,109,982	\$84,772,714	\$85,730,686	\$85,070,988	\$80,256,081	\$82,079,831	\$81,514,498	\$84,039,092	\$87,170,625
Federal Revenue	10,432,754	14,254,058	13,047,094	12,737,234	4,976,592	4,890,094	4,564,361	4,131,208	4,620,150
Other State Revenue	20,219,110	30,423,013	17,389,789	26,199,019	21,527,613	22,369,412	22,106,761	26,071,984	30,800,798
Interest Income	--	762,023	--	--	--	--	--	--	--
Other Local Revenue	7,963,874	7,154,113	6,396,676	10,768,344	6,268,170	9,806,084	9,779,161	12,713,068	8,902,621
TOTAL REVENUES	\$116,725,720	\$137,365,921	\$122,564,245	\$134,775,585	\$113,028,456	\$119,145,421	\$117,964,781	\$126,955,352	\$131,494,194
EXPENDITURES									
Certificated Salaries	\$52,437,612	\$48,315,770	\$49,937,684	\$52,204,255	\$51,598,915	\$49,195,337	\$44,414,226	\$45,686,715	\$47,418,746
Classified Salaries	18,653,868	17,201,761	19,594,667	19,316,677	20,926,107	20,441,711	19,356,366	19,210,337	20,311,559
Employee Benefits	33,246,883	29,260,978	32,741,398	31,953,745	33,670,530	31,397,217	31,074,620	31,316,461	32,562,541
Books and Supplies	2,666,950	3,280,102	8,161,768	5,834,014	4,553,711	2,794,230	3,249,440	3,595,807	3,665,625
Services & Other Operating Exp.	11,208,511	21,142,793	22,163,328	29,076,633	27,963,553	23,890,024	27,073,392	26,221,849	26,575,472
Capital Outlay	71,902	85,961	1,176,409	994,766	1,061,902	1,042,836	151,000	299,748	22,736
Other Outgo	969,607	--	(18,821)	(73,799)	606,676	1,363,055	834,948	1,298,392	(232,176)
Debt Service									
Principal	--	69,805	--	--	--	--	--	--	--
Interest and Other	--	2,097	--	--	--	--	--	--	--
TOTAL EXPENDITURES	\$119,255,333	\$119,359,267	\$133,756,434	\$139,303,291	\$140,381,394	\$130,387,916	\$126,153,992	\$127,629,310	\$130,324,503
Excess (Deficiency) of Revenue over Expenditures	(\$2,529,613)	\$18,006,654	(\$11,192,188)	(\$4,527,706)	(\$27,352,938)	(\$11,289,780)	(\$8,189,212)	(\$673,958)	\$1,169,691
OTHER FINANCING SOURCES (USES)									
Other Sources	--	--	--	\$682,267	--	\$448,266	--	--	--
Net Change in Fund Balances	(\$2,529,613)	\$18,006,654	(\$11,192,188)	(\$3,845,439)	(\$27,352,938)	(\$10,841,514)	(\$8,189,212)	(\$673,958)	\$1,169,691
FUND BALANCE, JULY 1	\$25,690,453	\$30,992,548 ⁽⁶⁾	\$43,850,065	\$48,999,202	\$38,134,846	\$45,153,763	\$23,022,933	\$34,312,248	\$33,638,290
FUND BALANCE, JUNE 30	\$23,160,840	\$48,999,202	\$32,657,877	\$45,153,763	\$10,781,908	\$34,312,249	\$14,833,722	\$33,638,289	\$34,807,980

⁽¹⁾ Reflects combined unrestricted and restricted general fund. All amounts rounded to nearest whole number.

⁽²⁾ From the District’s audited financial statements for fiscal years 2022-23 through 2024-25, respectively.

⁽³⁾ From the District’s adopted budget, approved by the Board on June 10, 2025. Amounts rounded to nearest whole.

⁽⁴⁾ From the District’s unaudited actuals. Amounts rounded to nearest whole.

⁽⁵⁾ From the District’s Adopted Budget. Amounts rounded to nearest whole.

⁽⁶⁾ Fiscal year 2022-23 beginning balance was restated due to errors related to the determination of which lease agreements are subject to GASB 87.

Source: Franklin-McKinley School District

Cap on School District Reserves

State regulations require school districts to budget a reserve for economic uncertainties. The recommended minimum amounts vary from 1% to 5% of total expenditures and other financing uses, depending on the district's average daily attendance. SB 858, adopted in June 2014, modified the law as it relates to ending fund balances for school districts. First, beginning in 2015–16, a school district that proposes to adopt or revise a budget that includes an ending fund balance that is two to three times higher (depending on whether a school district's average daily attendance exceeds 400,000 students) than the State's minimum recommended reserve for economic uncertainties must substantiate the need for the higher balance. Second, in a year immediately following a deposit into the PSSSA established in the State General Fund (see "Constitutional and Statutory Provisions Affecting District Revenues and Appropriations – Proposition 2"), a school district's adopted or revised budget may not contain an ending fund balance higher than two to three times higher (depending on whether a school district's average daily attendance exceeds 400,000 students) than the State's minimum recommended reserve for economic uncertainties. A county superintendent could waive the prohibition, pursuant to specified conditions, for up to two consecutive years within a three-year period. The District's Board has adopted a reserve goal of 5% for the General Fund, above the State minimum requirement to support fiscal stability.

The requirements relating to ending fund balances for school districts established by SB 858 were further modified by SB 751, adopted in October 2017. Under SB 751, in a fiscal year immediately after a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds 3% of the combined total of General Fund revenues appropriated for school district and allocated local tax proceeds for that fiscal year, a school district budget that is adopted or revised must not contain a combined assigned or unassigned ending General Fund balance that is in excess of 10% of such funds. Similar to SB 858, under certain circumstances, a county superintendent may grant an exemption from the ending fund balance requirements of SB 751. SB 751 does not apply to basic aid school districts (i.e., funded only with local property taxes and no general purpose state aid) and small school districts (ADA of fewer than 2,501 students).

If the cap is triggered, unless exempted, a school district would be required to increase expenditures in order to bring its ending fund balance down to the maximum level. The PSSSA appears to be intended to provide a substitute for local reserves in the event of a future economic downturn. However, there is no linkage between the sizes of the State and local reserves. In the past when the cap was triggered in fiscal years 2022-23 and 2023-24, there was no effect on the District's budget. The District is unable to predict what the effect on its future budgets will be.

The 2026-27 State Budget includes a mandatory payment of \$8.7 billion across the three-year budget window and a discretionary deposit of \$500 million in fiscal year 2025-26. As a result, the balance in the PSSSA will be \$9.2 billion. (See "2026-27 Adopted State Budget.") Under SB 751, there is a cap of 10% on school district reserves in fiscal years immediately succeeding those in which the balance in the PSSSA is equal to or greater than three percent of the total K-12 share of the Proposition 98 guaranteed minimum funding. This balance triggers the 10% cap on school district reserves for the current fiscal year 2026-27.

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, 2025 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, 2025 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 2020-21 through fiscal year 2024-25.

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AUDITED GENERAL FUND REVENUES, EXPENDITURES AND FUND BALANCES⁽¹⁾
Fiscal Years 2020-21 through 2024-25
Franklin-McKinley School District

	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25 ⁽³⁾
REVENUES					
LCFF	\$73,915,772	\$79,690,668	\$84,772,714	\$85,070,988	\$82,079,831
Federal Revenue	17,159,510	13,589,360	14,254,058	12,737,234	4,890,094
Other State Revenue	15,030,829	15,178,170	30,423,013	26,199,019	22,369,412
Interest Income	--	--	762,023	--	--
Other Local Revenue	6,927,824	8,186,610	7,154,113	10,768,344	9,806,084
TOTAL REVENUES	\$113,033,935	\$116,644,808	\$137,365,921	\$134,775,585	\$119,145,421
EXPENDITURES					
Current Expenses:					
Instruction	\$69,165,403	\$73,103,871	\$78,839,356	\$91,987,165	\$84,957,549
Instruction Related Activities:					
Supervision of Instruction	1,240,376	973,243	2,289,599	3,423,077	3,753,845
Instructional Library, Media & Technology	897,978	937,883	980,557	1,045,023	964,870
School Site Administration	8,944,962	9,446,634	9,479,470	11,137,346	9,535,606
Pupil Services:					
Home-to-School Transportation	1,680,048	2,680,335	2,966,544	3,327,725	3,162,638
Food Services	109,948	18,846	113,851	253,957	490,371
All Other Pupil Services	3,534,586	4,567,295	5,674,629	6,547,310	5,376,825
Administration:					
Data Processing	7,603,334	2,215,321	2,633,245	4,035,876	2,098,737
All Other Administration	5,675,153	5,175,140	5,087,780	6,457,721	6,193,559
Plant Services	10,107,098	10,534,018	10,716,949	11,052,303	11,457,132
Facility Acquisition & Construction	--	--	--	6,682	670,716
Other Outgo	266,703	30,000	--	--	--
Capital Outlays	--	--	505,385	--	--
Transfers to Other Agencies	--	--	--	--	880,124
Debt Service					
Principal	203,661	258,576	69,805	--	883,388
Interest and Other	52,534	14,630	2,097	29,106	9,841
TOTAL EXPENDITURES	\$109,481,784	\$109,955,792	\$119,359,267	\$139,303,291	\$130,435,201
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources and Uses	\$3,552,151	\$6,689,016	\$18,006,654	(\$4,527,706)	(\$11,289,780)
OTHER FINANCING SOURCES (USES):					
Other Sources	\$84,548	--	--	\$682,267	\$448,266
NET OTHER FINANCING SOURCES (USES):	\$84,548	--	--	\$682,267	\$448,266
NET CHANGE IN FUND BALANCES	\$3,636,699	\$6,689,016	\$18,006,654	(\$3,845,439)	(\$10,841,514)
FUND BALANCE, JULY 1	\$21,622,870	\$25,259,569	\$30,992,548⁽²⁾	\$48,999,202	\$45,153,763
FUND BALANCE, JUNE 30	\$25,259,569	\$31,948,585⁽²⁾	\$48,999,202	\$45,153,763	\$34,312,249

⁽¹⁾ From the District's comprehensive audited financial statements for fiscal years 2020-21 through 2024-25, respectively. Reflects combined unrestricted and restricted general fund. All amounts rounded to nearest whole number.

⁽²⁾ Fiscal year 2021-22 ending balance was restated due to adjustments for early retirement liabilities, accounts payable, and accounts receivable. In addition, the fiscal year 2022-23 beginning balance was restated due to errors related to the determination of which lease agreements are subject to GASB 87.

⁽³⁾ The actual amounts reported in the "General Fund – Budgetary Comparison Schedule" in the District's comprehensive audited financial statements for fiscal year 2024-25 do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance (see "Audited General Fund Revenues, Expenditures and Fund Balances" herein) due to reclassifying entries.

Source: Franklin-McKinley School District

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.

The State Constitution requires the Governor to propose a budget to the State Legislature no later than January 10 of each year and requires the Legislature to adopt a final budget no later than June 15. The latter deadline was frequently missed when passage of the budget required a two-thirds majority of each house of the Legislature. The State's voters approved an amendment to the State Constitution in November 2010 that lowered the vote requirement to a simple majority of each house of the State Legislature. The lower vote requirement also applies to the budget trailer bills that specifically appropriate funds. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of each house of the State Legislature is still required to override any veto by the Governor. School district budgets must be adopted by the district's governing board by July 1 and then revised within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget.

Possible Delays in Apportionments. If the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding may be treated differently. In 2002, a California Court of Appeal held in *White v. Davis* (also referred to as *Jarvis v. Connell*) that the State Controller cannot disburse State funds after the beginning of the fiscal year until the adoption of the budget bill or an emergency appropriation, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution, such as appropriations for salaries of elected State officers, or (iii) required by federal law, such as payments to State workers (but at no more than minimum wage). The court specifically held that pre-budget disbursements of Proposition 98 funding for school districts are invalid. In 2003, the California Supreme Court upheld the decision of the Court of Appeal. During the 2003-04 State budget impasse, the State Controller nonetheless treated revenue limit (*i.e.*, general purpose) apportionments to school districts as continuous legislative appropriations under statute. The State Controller did not disburse certain categorical and other funds to school districts until the 2003-04 Budget Act was enacted.

Additional Delays in Apportionments. During the Great Recession (2007-2009), the Legislature authorized intra-year and inter-year deferrals of certain payments otherwise payable at earlier dates in the fiscal year to K-12 schools. The use of this cash-flow management device by the Legislature required some school districts to increase the size or frequency of their tax and revenue note borrowings.

2026-27 Adopted State Budget.

On June 29, 2026, the Governor signed the State budget for fiscal year 2026-27 (the “2026-27 State Budget”). The 2026-27 State Budget presents balanced budgets for fiscal years 2026-27 and 2027-28, and reduced projected structural deficits in fiscal years 2028-29 and 2029-30. This budget maintains prior investments in education, housing, climate change, healthcare, workforce development, and public safety. Total expenditures across all funding sources is budgeted at \$351.7 billion.

The 2026-27 State Budget includes balances of \$4.5 billion in fiscal year 2026-27 and \$403 million in fiscal year 2027-28 in the Special Fund for Economic Uncertainties. In addition, there is a transfer of \$6.4 billion into the Projected Surplus Temporary Holding Account (“Surplus Holding Account”) in this current fiscal year and allocates these funds in the following fiscal year. The Surplus Holding Account was created to protect against overcommitting projected resources until revenues are realized and expenditures are finalized. In addition to these reserves, the 2026-27 State Budget includes a \$3.6 billion deposit into the BSA in fiscal year 2026-27 and a minor “true-up” for fiscal year 2024-25 due to prior suspended deposits. The total balance for fiscal year 2026-27 for the BSA will be \$15.1 billion. The 2026-27 State Budget also includes a balance of \$9.2 billion in the PSSSA. As a result, combined with the Special Fund for Economic Uncertainties and the BSA, total reserves in fiscal year 2026-27 are \$28.8 billion.

To address education, the 2026-27 State Budget includes total funding of \$151.4 billion, comprised of \$91.1 billion General Fund and \$60.3 billion other funds) for all TK-12 education programs. The revised Proposition 98 guaranteed minimum funding (the “Guarantee”) for TK-14 schools is calculated to be \$124.9 billion in fiscal year 2024-25, \$125.3 billion in fiscal year 2025-26, and \$128.1 billion in fiscal year 2026-27. These levels represent an increase of approximately \$29.2 billion over the three-year period relative to the 2025-26 State Budget. The Guarantee is in a Test 1 for fiscal years 2024-25 through the current fiscal year. This means that the funding level of the Guarantee these fiscal years is equal to roughly 40% of General Fund revenues, plus local property tax revenues. This percentage of General Fund revenues is not reduced to reflect enrollment adjustments—which further increases per pupil funding.

The Proposition 98 formula requires an \$8.3 billion maintenance factor payment in fiscal year 2024-25. This payment will fully retire the Proposition 98 maintenance factor balance.

The 2026-27 State Budget maintains a \$3.9 billion settle-up amount in fiscal year 2025-26. In spring 2027, if revenues remain at the same or higher levels for fiscal year 2025-26, the Legislature is required by law to pay this amount back to TK-14 schools. Additionally, the 2026-27 State Budget includes language that allocates 33% of General Fund revenues over 2026-27 State Budget projections, as calculated at the 2027 May Revision, to pay down any settle-up balance that remains for fiscal year 2025-26. The 2026-27 State Budget maintains the settle-up payment of \$1.9 billion in fiscal year 2024-25.

As stated above, as of the 2026-27 State Budget, the balance in the PSSSA will be \$9.2 billion, including mandatory deposits of \$8.7 billion across the three-year budget window and a discretionary deposit of \$500 million in fiscal year 2025-26. This balance triggers school district reserve caps beginning in fiscal year 2026-27. See “Cap on School District Reserves” herein.

Other education funding features described in the 2026-27 State Budget include:

- *LCFF*: The 2026-27 State Budget maintains the statutory COLA of 2.87% from the May Revision. When combined with adjustments due to population growth, local educational agencies will receive an increase of approximately \$1.1 billion compared to the 2025-26 State Budget. In addition, the 2026-27 State Budget includes \$1.1 billion of discretionary investment, referred to as a “super COLA.” As a result, the total COLA will be 4.31%.

These additional funds are intended to assist local educational agencies managing rising costs and help offset funding reductions related to declining enrollment and a new requirement to provide paid pregnancy disability leave.

- *State Education Governance:* The 2026-27 State Budget implements changes to the governance structure of education in the State. Oversight authority of the management of the California Department of Education and support of local educational agencies to the State Board of Education. A new Education Commission will be appointed by the Governor to oversee the Department of Education. Two new members will be added to the State Board of Education and the Superintendent of Public Instruction will replace a gubernatorial appointee, bringing the total number of State Board of Education members to 13.
- *Special Education:* The 2026-27 State Budget provides an increase of \$2.4 billion in special education funding, a 43% increase over the prior year's budget. These new funds allow all local educational agencies to receive special education funding at the same rate.
- *Student Support and Professional Development Discretionary Block Grant:* The 2026-27 State Budget provides \$5 billion one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block Grant. These funds help address rising costs; professional development for teachers on the ELA/ELD Framework, the Literacy Roadmap and the Mathematics Framework; and teacher recruitment and retention strategies.
- *Paid Pregnancy Leave:* As presented in the May Revision, the 2026-27 State Budget requires all TK-14 local educational agencies to provide all employees with up to 14 weeks of paid pregnancy disability leave beginning in fiscal year 2026-27. The costs of this benefit are expected to be paid from the "super COLA."
- *Community Schools:* Consistent with the May Revision, the 2026-27 State Budget provides \$1 billion ongoing Proposition 98 General Fund to expand community schools.
- *Literacy and Math Instruction:* The 2026-27 State Budget includes a one-time increase of \$350 million to extend funding for Literacy Coaches and Reading Specialists Grant Program for all grantees, extending the program for all grantees until June 30, 2031. There is an additional \$50 million one-time Proposition 98 General Fund for the Mathematics Professional Learning Partnership to continue the program beyond the current expiration date of June 30, 2029.
- *Teacher Preparation and Professional Development:* The 2026-27 State Budget includes nearly three-quarters of a billion dollars in various investments to address teacher shortages, including an additional \$408 million one-time Proposition 98 General Fund for the Student Teacher Stipend Program to extend the program and provide an additional \$5,000 stipend for student teachers pursuing a credential in a high-need field; \$250 million one-time Proposition 98 General Fund to continue educator residency programs through fiscal year 2029-30; and \$10 million one-time Proposition 98 General Fund for the Classified School Employee Teacher Credentialing Program to provide grants to local educational agencies to support classified employees pursuing teaching credentials. The 2026-27 State Budget also includes \$5 million one-time Proposition 98 General Fund to build and validate a system for statewide college transcript review by the California

Commission on Teacher Credentialing so teacher candidates can use their coursework to provide subject matter competency.

- *Learning Recovery Emergency Block Grant:* The 2026-27 State Budget includes \$757.3 million one-time Proposition 98 General Fund to support the Learning Recovery Emergency Block Grant to provide funds to establish learning recovery initiatives through school year 2027-28.
- *Support for Students Experiencing Homelessness:* The 2026-27 State Budget provides \$116 million one-time Proposition 98 General Fund to provide three-year grants to local educational agencies to increase identification of and improve educational outcomes for students experiencing homelessness.

Legal Challenges to State Funding of Education

The application of Proposition 98 and other statutory regulations have been the subject of various legal challenges in the past. In 2024, the California School Boards Association's ("CSBA") Education Legal Alliance sued the California Department of Finance and the State over their failure to comply with the State Constitution as represented in Proposition 98. This legal challenge is ongoing. CSBA filed a new lawsuit on September 22, 2026 challenging the State for alleged repeated, unconstitutional violations of voter-approved laws governing school funding, and in particular the State's withholding of \$3.9 billion in Proposition 98 funding for schools. In addition, on September 15, 2026, the California Teachers Association sued the State over the same \$3.9 billion funding dispute. The District cannot predict the outcome of these legal challenges, or if or when there will be changes to education funding or additional legal challenges which may arise relating thereto.

Additional Information for State Finances

The full text of proposed and adopted State budgets may be found at the internet website of the California Department of Finance, www.dof.ca.gov, under the heading "California Budget." The Legislative Analyst's Office's ("LAO") budget overviews and other analyses may be found at www.lao.ca.gov under the headings "The Budget" and "Publications." In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov or through the Municipal Securities Rulemaking Board's EMMA website at emma.msrb.org.

Periodic reports on revenues and/or expenditures during the Fiscal Year are issued by the Governor's Office, the State Controller's Office and the LAO. The Department of Finance issues a monthly Bulletin, which reports the most recent revenue receipts as reported by state departments, comparing them to Budget projections. The Governor's Office also formally updates its budget projections three times during each Fiscal Year, in January, May and at budget enactment. These bulletins and other reports are available on the internet.

The information referred to above is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Future State Budgets

The District cannot predict what actions will be taken in the future by the Legislature and the Governor to deal with changing State revenues and expenditures or 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. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools as budgeted.

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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 TK through eighth grade. The District encompasses approximately 11.9 square miles, is located approximately 50 miles south of San Francisco, and serves an estimated population of 88,137 residing in a portion of the City of San Jose and certain unincorporated areas of the County, as of the ACS 2024 census data. As of July 1, 2026, the District operates thirteen schools, including seven elementary schools for TK through sixth grade, one elementary school for K through sixth grade, two schools for TK through eighth grade, and three middle schools for seventh and eighth grade. The District has a budgeted fiscal year 2026-27 ADA of 4,950 students.

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

Name	Office	Term Expires
Hong Ha Hoang	President	November 2028
Steven Sanchez	Vice President	November 2026
Rudy Rodriguez	Clerk	November 2026
Marc Cooper	Member	November 2026
George Sanchez	Member	November 2028

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. Mr. 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 seventeen years and has a combined total of thirty-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 10:1 in TK (Transitional Kindergarten), 24:1 in grades K-3, 32:1 in grades 4-6 and 23.5:1 in grades 7-8. The following table shows historical enrollment figures for the District for fiscal years 2016-17 through 2025-26 and budgeted for fiscal year 2026-27.

The District, along with neighboring school districts, has faced declining enrollment for a number of years partly due to families being dissatisfied with the high cost of living and deciding to leave the State of California. For those that stay in California, families, especially those with school-aged children, seek areas with more affordable home prices compared to home prices within the District. Another reason is that once families purchase a home within the District's boundaries, parents tend to remain in the area even after their children leave the District, reducing the opportunity for new families with school-aged children to move into the area. To mitigate this challenge, the District has implemented programs with the goal of attracting more students to the District, including offering dual-immersion programs in Spanish and Vietnamese, hosting showcase events for prospective families, and engaging with social media.

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HISTORICAL ENROLLMENT
Fiscal Years 2016-17 through 2026-27 (Budgeted)
Franklin-McKinley School District

Fiscal Year	Enrollment ⁽¹⁾	% Change in Enrollment
2016-17	8,014	--
2017-18	7,669	(4.30)%
2018-19	7,324	(4.50)
2019-20	6,872	(6.17)
2020-21	6,611	(3.80)
2021-22	6,196	(6.28)
2022-23	5,952	(3.94)
2023-24	5,799	(2.60)
2024-25	5,701	(1.70)
2025-26	5,491	(3.68)
2026-27 ⁽²⁾	5,236	(4.64)

⁽¹⁾ Reflects certified CALPADS enrollment numbers. In fiscal years 2016-17 through 2019-20, includes the enrollment of the former dependent charter school (Bridges Academy) that was located within the District's boundaries. In fiscal year 2020-21, the charter school was converted into a traditional public school, and the students remained within the District's enrollment numbers.

⁽²⁾ As of the Adopted Budget for fiscal year 2026-27.

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 five charter schools currently operating within the District (collectively, the "Charter Schools"). Prior to fiscal year 2020-21, one of the charter schools was a dependent charter (Bridges Academy), but was then converted to a traditional public school in fiscal year 2020-21. 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 2016-17 through 2025-26
Franklin-McKinley School District

<u>Fiscal Year</u>	<u>Dependent Charter School</u>	<u>Independent Charter Schools</u>
2016-17	452	2,721
2017-18	378	2,928
2018-19	345	2,951
2019-20	297	2,903
2020-21	n/a	2,369
2021-22	n/a	2,206
2022-23	n/a	2,155
2023-24	n/a	2,126
2024-25	n/a	2,049
2025-26	n/a	2,099

⁽¹⁾ The enrollment shown in this table reflects total enrollment of Charter Schools authorized by the District. 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

Over the past few years, the District has noticed a decline in District students transferring to charter schools, and instead the charter schools appear to be recruiting outside of the District's boundaries to increase their enrollment. 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.

Labor Relations

For the 2025-26 fiscal year, as of the second interim report, the District employed 342 full-time equivalent ("FTE") certificated employees, 316 FTE classified employees, and 21 management positions. The District has budgeted, as of the Adopted Budget, 345 FTE certificated employees, 321 FTE classified employees, and 42 management positions. These employees, except management and some part-time employees, are represented by the two bargaining units as noted below. The Franklin-McKinley Education Association ("FMEA") has a 3.00% salary increase on schedule for fiscal year 2025-26 and a 1.25% increase for fiscal year 2026-27. For fiscal year 2025-26 for the Classified School Employees Association ("CSEA"), the Board approved salary increases of 2.24% ongoing and a one-time payment of 0.10%. Negotiations with CSEA for the current fiscal year 2026-27 are ongoing. The District shares benefit costs with employees. Certificated staff are responsible for 5% of benefit costs, and classified staff are responsible for 12% of benefit costs. There were no significant changes to benefits for either bargaining unit.

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	343	June 30, 2027
California School Employees Association	376	June 30, 2027

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.

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

STRS. All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teacher's Retirement Law. STRS is funded through a combination of investment earnings and statutorily set contributions from employee plan members, the District and the State. Both active plan members and the District are required to contribute at a statutorily established rate.

Historically, employee, employer, and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the statutory contributions were significantly less than the actuarially required amounts. As a result, and due in part to investment losses, the STRS defined benefit program showed an estimated unfunded actuarial obligation of approximately \$82.0 billion as of June 30, 2025 (the date of the last actuarial valuation). Compared to the previous valuation, the unfunded actuarial obligation decreased from \$88.7 billion. As a result, the funded ratio improved from 76.7% to 79.3%. This improvement in the funded ratio is primarily due to the expected year-to-year change as a result of contributions to pay down the unfunded actuarial obligation and the return on the value of assets exceeding the assumed return. Funding progress has been assisted over the last several years by contributions received that were above the calculated rates. This progress is anticipated to continue in fiscal year 2025-26 by actions taken by the board to maintain the state and employer contributions at levels higher than the rates calculated under the valuation policy.

In June 2014, the Governor signed into law Assembly Bill 1469 ("AB 1469"), which represented a legislative effort to address the unfunded liabilities with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 by requiring increased State, employer, and member contributions to the Teachers' Retirement Fund in order to eliminate such unfunded actuarial obligation by June 30, 2046. According to STRS, it is ahead of schedule in reaching full funding by 2046.

Pursuant to AB 1469, starting July 1, 2014, the employee contribution rates increased over a three-year phase-in period. Effective July 1, 2016, STRS members hired prior to January 1, 2013 contribute a statutorily fixed percentage of 10.250% of pay. For STRS members hired after January 1, 2013, a base rate ("Normal Cost Rate") is calculated equal to one-half of the normal cost rate of benefits, rounded to the nearest quarter of one percent. This Normal Cost Rate will not be adjusted if the increase or decrease in such rate is less than 1% of creditable compensation since the last adjustment. For fiscal year 2025-26, STRS members hired after January 1, 2013 contributed 10.205% of pay, and will continue at this rate for fiscal year 2026-27.

Pursuant to AB 1469, K-14 school districts' contribution rates increased over a seven-year phase-in period through fiscal year 2020-21. For fiscal year 2021-22 and each fiscal year thereafter, the Teachers' Retirement Board shall increase or decrease the percentages paid by school districts from the percentage paid during the prior fiscal year to reflect the contribution required to eliminate by June 30, 2046, the

remaining unfunded actuarial obligation with respect to service credited to members before July 1, 2014, as determined by the Teachers' Retirement Board based upon a recommendation from its actuary. The effective employer contribution rate was 19.10% in fiscal year 2025-26 and will remain at 19.10% for fiscal year 2026-27.

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 Teachers' Retirement Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect its contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect on July 1, 1990. For fiscal year 2026-27, the State's contribution rate is 8.328%. 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 Maintenance Account (the "SBMA"), 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. As a result, the total State contribution for the Defined Benefit Program for fiscal year 2026-27 is 10.828%.

PERS. All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of the School Employer Pool, a "cost-sharing" pool for school employers within PERS. With the enactment of the California Public Employees' Pension Reform Act ("PEPRA") (see "California Public Employees' Pension Reform Act of 2013" herein), a member who joined PERS (a) prior to January 1, 2013 but was hired by a different PERS employer on or after January 1, 2013 following a break in service of more than six months, (b) for the first time on or after January 1, 2013 and has no prior membership in another California public retirement system, or (c) for the first time on or after January 1, 2013, and who was a member of another California public retirement system, but who is not subject to reciprocity upon joining PERS is considered a PEPRA member. PERS members who are not PEPRA members are considered Classic members. PEPRA members are required to contribute at least 50% of the total normal cost rate of their pension benefit. PEPRA contains a provision that provides when the total normal cost rate changes by more than 1% of payroll, the member contribution rate must be adjusted to half of the new normal cost rate. For fiscal year 2025-26, the total normal cost rate for PEPRA school members has not changed by more than 1% of payroll since the last member rate adjustment. As a result, for the 2026-27 fiscal year, PEPRA members will continue to contribute 8.0% of their salaries. Active plan members enrolled in PERS as Classic members are required by statute to contribute 7.0% of their salaries.

The District is required to contribute an actuarially determined rate, which is 26.40% of eligible salary expenditures in fiscal year 2026-27, a decrease of 0.41% from the prior fiscal year. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each participant.

Similar to STRS, PERS has experienced an unfunded liability in recent years. The PERS unfunded accrual liability was approximately \$35.7 billion as of June 30, 2025 (the date of the last actuarial valuation). The unfunded accrual liability decreased from June 30, 2024 to June 30, 2025, and as a result the funded ratio for the School Employer Pool improved from 69.6% to 74.7%. This increase in the funded ratio was primarily due to investment gain being greater than expected.

Among other things, to address the unfunded liability issue, the PERS Board of Administration (the "PERS Board"), in April 2013, approved changes to the PERS amortization and smoothing policy in order to reduce volatility in employer contribution rates. Additionally, in April 2014, the PERS Board established new contribution rates, reflecting changes in actuarial and demographic assumptions, that were

implemented for school districts in fiscal year 2016-17. Further, in November 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS discount rate in years of good investment returns, help pay down unfunded liability, and to provide greater predictability and less volatility in contribution rates for employers. The PERS Board, in December 2016 voted to lower its discount rate from 7.5% to 7.0% by fiscal year 2020-21. Subsequently, since the preliminary returns on investment as of July 12, 2021 exceeded the prior 7.0% discount rate, pursuant to the PERS Funding Risk Mitigation Policy, the discount rate was automatically reduced by 0.2% to 6.8%. The goal for the new rates is to eliminate the unfunded liability in approximately 30 years.

District Contributions. The District’s retirement contributions for the fiscal year ended June 30, 2025, are as follows:

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
Retirement Contributions for Fiscal Year 2024-25**

	Total Employer Contributions	District’s Fiscal Year 2024-25 Covered Payroll	Employer Contribution as a Percentage of Covered Payroll
STRS	\$8,872,151	\$47,935,606	18.51%
PERS	\$6,002,365	\$22,392,095	26.81%

Source: Franklin-McKinley School District, Audited Financial Statements for Fiscal Year 2024-2025

For the 2025-26 fiscal year, as of the Adopted Budget, the District’s unaudited actual contributions are \$12,856,779 for STRS (reflecting a contribution rate of 19.10% of annual payroll) and \$5,622,032 for PERS (reflecting a contribution rate of 26.81% of annual payroll). The District has budgeted \$13,727,779 for STRS (reflecting a contribution rate of 19.10% of annual payroll) and \$6,466,224 for PERS (reflecting a contribution rate of 26.40% of annual payroll) for fiscal year 2026-27.

State Pension Trusts. Both STRS and PERS issue a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from both 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 from their most recently released reports.

FUNDED STATUS
STRS (Defined Benefit Program) and PERS (Schools Plan)
(Dollar Amounts in Millions)⁽¹⁾

Plan	Accrued Liability	Market Value of Assets	Unfunded Accrued Liability
Public Employees Retirement Fund (PERS) School Plan	\$141,195 ⁽²⁾	\$105,452 ⁽³⁾	\$35,743
State Teachers' Retirement Fund (STRS) Defined Benefit Program	395,525 ⁽⁴⁾	349,525 ⁽⁵⁾	75,038

⁽¹⁾ Amounts may not add due to rounding.

⁽²⁾ June 30, 2025 Valuation Date.

⁽³⁾ Reflects market value of assets as of June 30, 2025.

⁽⁴⁾ June 30, 2025 Valuation Date.

⁽⁵⁾ Reflects market value of assets as of June 30, 2025.

Source: CalPERS Schools Pool Actuarial Valuation as of June 30, 2025; STRS Defined Benefit Program Actuarial Valuation dated June 30, 2025.

Unlike PERS, STRS contribution rates for participant employers, employees and the State are set by statute and do not vary from year-to-year based on actuarial valuations. Moreover, the employee and employer contribution rates prior to Fiscal Year 2014-15 had been long fixed at 8% and 8.25% of salaries. In recent years, the combined employer, employee and State contributions to STRS have been significantly less than actuarially required amounts. As a result, and due in part to investment losses, the unfunded liability of STRS had increased significantly. However, AB 1469, as discussed above, in an effort to address the unfunded liabilities of the STRS pension plan, requires increased contributions in order to eliminate the unfunded actuarial obligation of the Defined Benefit Program by June 30, 2046. Employee contributions and eligibility for retirement vary depending on whether such employee was hired on or after January 1, 2013.

California Public Employees' Pension Reform Act of 2013. PEPR was signed into law by the Governor on September 12, 2012. PEPR's impacts to the STRS and PERS program included (i) an increase in the retirement age for public employees depending on job function, (ii) a cap on the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) a requirement for public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits, and (iv) a requirement for final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months. PEPR's provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date.

The District is unable to predict the amount of future contributions it will have to make to PERS and STRS as a result of the implementation of PEPR, as a result of negotiations with its employee bargaining units, and/or as a result of any legislative or administrative changes that may be adopted in the future regarding employer contributions to PERS and STRS. The District cannot predict whether any projected savings by PERS' and STRS' actuaries will be realized by the District. The District can provide no assurances that the District's required contributions to PERS will not increase in the future.

The District cannot predict future general market increases or declines resulting in gains or losses for the investments held in the PERS and STRS portfolios. Investment increases or losses may result in changes to the District's required contributions to PERS and STRS in future years.

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, replaced 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. 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, 2025, 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	\$49,572,825	\$14,696,485	\$9,137,626	\$2,844,409
PERS	37,725,462	11,714,977	983,964	6,331,362
Total	\$87,298,287	\$26,411,462	\$10,121,590	\$9,175,771

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 \$52,946 and \$47,548 for the Benefits in fiscal years 2023-24 and 2024-25, respectively, and, as of the Adopted Budget, an unaudited actual payment of \$36,493 for fiscal year 2025-26, and a budgeted payment of \$39,214 for fiscal year 2026-27. The approximate accumulated future liability for the District at June 30, 2026 amounts to \$269,676. This amount was calculated based upon the two retirees receiving the Benefits multiplied by the District payment in effect at June 30, 2026, multiplied by the number of years of payments remaining, with health care cost trend rate of 7%.

Supplemental Early Retirement Programs

The District has offered a supplemental early retirement plan for eligible employees through Keenan & Associates. In fiscal year 2020-21, the District provided a Supplemental Early Retirement Incentives Program to eligible employees. There is one remaining payment of \$225,899 in the current fiscal year.

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 2025-26, the District was a member of Alliance of Schools for Cooperative Insurance Programs (“ASCIP”). ASCIP provides property and liability insurance coverage to the District. Settled claims have not exceeded the commercial coverage in any of the past three years, nor has there been a significant reduction in insurance coverage from the prior year.

The District participates in the Santa Clara County Schools Insurance Group (“SCCSIG”), a joint powers authority, providing a risk pool for insurance coverage relating to workers’ compensation, and property liability insurance coverage.

The District is also a member of the East Valley Transportation joint powers authority (“EVT,” and, together with SCCSIG, the “JPAs”), receiving transportation services for special education students.

The District participates in joint powers agreements with each of the JPAs. Each member district of SCCSIG and EVT 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 2024-25, the District made payments of \$850,333 and \$993,117 to SCCSIG and EVT, respectively. The District made unaudited actual payments of \$1,525,566.53 to SCCSIG and \$970,126 to EVT for fiscal year 2025-26, and has budgeted for fiscal year 2026-27, as of the Adopted Budget, payments of \$1,110,372 to SCCSIG and \$1,246,128 to EVT. The relationship between the District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes. See also Appendix B – “2024-2025 Audited Financial Statements of the District” attached hereto.

Cybersecurity

The District recognizes the paramount significance of its computer hardware and software systems, integral to the seamless execution of both educational and operational functions. The extensive data collected, processed, and maintained by these systems underpin the District’s core operations. However, the ever-evolving landscape of cybersecurity presents occasional threats that necessitate vigilant safeguarding. Over the past five years, the District has maintained an unblemished record, devoid of any major cybersecurity attacks or breaches. Cognizant of the evolving threat landscape, the District has proactively taken measures to fortify its digital defenses, including the initiatives highlighted below:

- *Advanced Firewall Protection:* To fortify its digital perimeter, the District has integrated a robust Palo Alto Networks Firewall. This defense mechanism is strategically hosted at the Santa Clara County Office of Education, guarding against external threats.
- *Endpoint Security Implementation:* Recognizing the need for holistic protection, the District has implemented the Falcon End Point Protection solution, deploying it across all staff devices. This resilient layer of security provides a safeguard against potential internal vulnerabilities.
- *Cybersecurity-Enriched Insurance:* Committed to comprehensive risk mitigation, the District has acquired insurance coverage from the SCCSIG, inclusive of cybersecurity provisions. This coverage serves as an additional layer of assurance in the event of unforeseen challenges.
- *Ongoing Strengthening Efforts:* In a proactive stride towards enhanced security, the District is actively exploring multifactor authentication measures. Furthermore, a robust cybersecurity training program for District staff is underway, fostering a culture of awareness and

preparedness. The District has hired an outside firm to test the District’s cybersecurity defenses and to advise on adjustments to protect the District’s network.

Despite these proactive measures, it is imperative to acknowledge that the evolving nature of cyber threats leaves the District with no guarantees of immunity. In the face of potential cyber-attacks or breaches, the sanctity of private, protected, and personal information collected and maintained by the District, as well as the continuity of its operational functions, could be compromised. The dynamic nature of the cybersecurity landscape underscores the importance of remaining adaptable and prepared. As a result, the District remains steadfast in its commitment to prioritize cybersecurity and resilience.

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, 2025 is shown below:

SCHEDULE OF LONG-TERM DEBT As of June 30, 2025 Franklin-McKinley School District

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
General Obligation Bonds	\$170,254,017	\$23,000,000	\$6,440,000	\$186,810,017
Unamortized debt premiums	5,810,714	2,811,967	294,985	8,327,696
Accreted Interest	8,486,666	--	--	8,486,666
Financed Purchases	10,760,000	--	675,000	10,085,000
Subscriptions	682,266	448,266	883,388	247,144
Non-healthcare termination benefits liability	880,214	2,377,600	428,416	2,829,398
Compensated absences	10,838,064	--	742,838	10,095,226
Healthcare termination benefits liability	376,251	--	14,340	361,991
Net pension liability	99,967,638	--	12,669,351	87,298,287
TOTAL	\$308,055,830	\$28,637,833	\$22,152,318	\$314,541,345

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. As of June 30, 2026, \$10,085,000 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.

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 February 1, 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 and advance refund a portion of the District’s then-outstanding 2010 Series A Bonds (as defined below). The District used a portion of the proceeds of the 2018 Refunding Bonds to refund the remaining portion of outstanding 2004 Series B Bonds. On May 6, 2026, the District issued \$41,615,000 principal amount of its 2026 General Obligation Refunding Bonds (the “2026 Refunding Bonds”) to defease and refund all of the then-outstanding 2015 Refunding Bonds and 2017 Refunding Bonds, along with other bonds identified below. As a result, there are no bonds outstanding under the 2004 Authorization.

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. On May 23, 2022 the District issued \$6,703,000 principal amount of its 2022

Refunding Bonds, Series A (“2022 Refunding Bonds Series A”) to defease and refund the 2010 Series B Bonds, and \$2,380,000 principal amount of its 2022 Refunding Bonds, Series B (“2022 Refunding Bonds Series B”) to refund a portion of the then-outstanding 2010 Series D Bonds. The 2026 Refunding Bonds defeased and refunded all of the then-outstanding 2010 Series D Bonds and the then-outstanding 2017 Refunding Bonds (as described above).

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”). The 2026 Refunding Bonds defeased and refunded the then-outstanding 2016 Series A Bonds, except the 2044 maturity, and the then-outstanding 2016 Series B Bonds, except the 2038 through 2041 maturities.

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. On August 4, 2020 the District caused the issuance of \$27,000,000 principal amount of its Election of 2020 General Obligation Bonds, Series A (the “2020 Series A Bonds”). On October 12, 2023 the District caused the issuance of \$30,000,000 principal amount of its Election of 2020 General Obligation Bonds, Series B (the “2020 Series B Bonds”). On September 25, 2024 the District caused the issuance of \$23,000,000 principal amount of its Election of 2020 General Obligation Bonds, Series C (the “2020 Series C Bonds”), the third and final issuance of bonds under the 2020 Authorization.

Waiver of Bonded Indebtedness Limit Applicable to 2020 Authorization. As described above, the California Education Code limits the District’s total general obligation bonded indebtedness applicable to the 2020 Authorization to 1.25 percent of the District’s taxable property. In order to authorize the issuance of the Bonds in excess of the 1.25 percent limit, the District sought a waiver of such limit from the California Department of Education. 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 2020 Authorization at the rate of 1.58 percent.

Multiple Authorizations. As described above, the 2026 Refunding Bonds defeased and refunded all or portions of the 2015 Refunding Bonds, 2017 Refunding Bonds, 2010 Series D Bonds, 2016 Series A Bonds, and 2016 Series B Bonds.

2026 Authorization. Pursuant to the 2026 Authorization, the District received authorization to issue \$142,000,000 aggregate principal amount of general obligation bonds. The Bonds will be the first series of bonds issued pursuant to the 2026 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)	2006 Refunding Bonds
2027	\$1,357,725.00
TOTAL	\$1,357,725.00

Source: Franklin-McKinley School District.

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

Year Ending (August 1)	2026 Refunding Bonds ⁽¹⁾
2027	\$1,017,250.00
2028	1,146,250.00
2029	1,242,500.00
2030	2,822,250.00
2031	2,911,000.00
2032	3,029,250.00
TOTAL	\$12,168,500.00

⁽¹⁾ Portion of the 2026 Refunding Bonds allocable to the 2004 Authorization.

Source: Franklin-McKinley School District.

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

Year Ending (August 1)	2010 Series A Bonds	2019 Refunding Bonds	2022 Refunding Bonds Series A	2022 Refunding Bonds Series B	2026 Refunding Bonds ⁽¹⁾	Total
2027	\$2,325,000.00	\$549,548.00	\$138,688.00	\$74,187.20	\$379,750.00	\$3,467,173.20
2028	2,600,000.00	549,548.00	138,304.00	73,803.20	375,250.00	3,736,905.20
2029	2,700,000.00	549,548.00	138,920.00	74,419.20	370,500.00	3,833,387.20
2030	2,014,922.18	549,548.00	788,512.00	74,009.60	315,500.00	3,742,491.78
2031	2,333,776.16	549,548.00	714,504.00	74,600.00	312,750.00	3,985,178.16
2032	2,645,000.00	549,548.00	416,888.00	74,164.80	309,750.00	3,995,350.80
2033	3,005,902.40	549,548.00	265,064.00	73,729.60	301,500.00	4,195,744.00
2034	1,189,998.88	549,548.00	392,696.00	74,294.40	2,033,250.00	4,239,787.28
2035	2,210,000.00	549,548.00	409,160.00	288,833.60	693,000.00	4,150,541.60
2036	--	1,389,548.00	2,690,048.00	577,868.80	--	4,657,464.80
2037	--	3,467,416.00	--	1,456,352.00	--	4,923,768.00
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	\$21,024,599.62	\$37,544,719.81	\$6,092,784.00	\$2,916,262.40	\$5,091,250.00	\$72,669,615.83

⁽¹⁾ Portion of the 2026 Refunding Bonds allocable to the 2010 Authorization.

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	2026 Refunding Bonds ⁽¹⁾	Total
2027	\$275,000.00	\$297,593.76	\$804,200.00	\$1,963,600.00	\$3,340,393.76
2028	275,000.00	297,593.76	855,800.00	2,022,850.00	3,451,243.76
2029	275,000.00	297,593.76	854,600.00	2,132,600.00	3,559,793.76
2030	275,000.00	297,593.76	862,600.00	2,235,100.00	3,670,293.76
2031	275,000.00	297,593.76	839,400.00	2,375,350.00	3,787,343.76
2032	275,000.00	297,593.76	691,200.00	2,636,100.00	3,899,893.76
2033	275,000.00	297,593.76	698,000.00	2,750,850.00	4,021,443.76
2034	275,000.00	297,593.76	698,800.00	2,881,100.00	4,152,493.76
2035	275,000.00	297,593.76	703,800.00	3,010,600.00	4,286,993.76
2036	275,000.00	297,593.76	807,800.00	3,048,850.00	4,429,243.76
2037	275,000.00	297,593.76	811,800.00	3,184,850.00	4,569,243.76
2038	275,000.00	2,277,593.76	649,600.00	1,628,350.00	4,830,543.76
2039	275,000.00	2,365,768.76	697,800.00	1,648,350.00	4,986,918.76
2040	275,000.00	2,408,712.50	743,200.00	1,719,600.00	5,146,512.50
2041	1,770,000.00	2,447,775.00	800,800.00	349,350.00	5,367,925.00
2042	1,855,200.00	--	--	2,669,350.00	4,524,550.00
2043	1,939,600.00	--	--	2,768,350.00	4,707,950.00
2044	2,028,000.00	--	--	2,771,600.00	4,799,600.00
TOTAL	\$11,442,800.00	\$12,773,381.38	\$11,519,400.00	\$41,796,800.00	\$77,532,381.38

⁽¹⁾ Portion of the 2026 Refunding Bonds allocable to the 2016 Authorization.

Source: Franklin-McKinley School District.

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

Year Ending (August 1)	2020 Series A Bonds	2020 Series B Bonds	2020 Series C Bonds	Total
2027	\$756,800.00	\$1,319,850.00	\$2,050,000.00	\$4,126,650.00
2028	756,800.00	1,319,850.00	1,582,500.00	3,659,150.00
2029	756,800.00	1,319,850.00	1,705,750.00	3,782,400.00
2030	756,800.00	1,319,850.00	1,821,250.00	3,897,900.00
2031	971,800.00	1,319,850.00	1,719,000.00	4,010,650.00
2032	1,043,200.00	1,319,850.00	1,769,500.00	4,132,550.00
2033	1,171,400.00	1,319,850.00	1,765,250.00	4,256,500.00
2034	1,209,000.00	1,319,850.00	1,853,750.00	4,382,600.00
2035	1,254,400.00	1,819,850.00	1,440,250.00	4,514,500.00
2036	1,297,200.00	1,909,850.00	1,444,500.00	4,651,550.00
2037	1,342,400.00	1,979,100.00	1,471,500.00	4,793,000.00
2038	1,389,800.00	2,458,350.00	1,085,000.00	4,933,150.00
2039	1,439,200.00	2,541,850.00	1,100,500.00	5,081,550.00
2040	1,490,400.00	2,633,100.00	1,113,750.00	5,237,250.00
2041	1,543,200.00	2,726,350.00	1,124,750.00	5,394,300.00
2042	1,592,400.00	2,821,100.00	1,133,500.00	5,547,000.00
2043	1,653,000.00	2,920,700.00	1,095,000.00	5,668,700.00
2044	1,709,400.00	3,032,700.00	1,096,500.00	5,838,600.00
2045	1,766,600.00	3,130,387.50	1,121,000.00	6,017,987.50
2046	1,829,400.00	3,239,575.00	1,132,250.00	6,201,225.00
2047	1,892,400.00	3,354,412.50	1,140,750.00	6,387,562.50
2048	1,960,400.00	3,474,262.50	1,136,500.00	6,571,162.50
2049	2,028,000.00	3,588,487.50	1,155,000.00	6,771,487.50
TOTAL	\$31,610,800.00	\$52,188,875.00	\$32,057,750.00	\$115,857,425.00

Source: Franklin-McKinley School District.

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**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	2016 Authorization Bonds	2020 Authorization Bonds	2026 Authorization Bonds	Total
2027	\$1,357,725.00	\$1,017,250.00	\$3,467,173.20	\$3,340,393.76	\$4,126,650.00	\$	\$
2028	--	1,146,250.00	3,736,905.20	3,451,243.76	3,659,150.00		
2029	--	1,242,500.00	3,833,387.20	3,559,793.76	3,782,400.00		
2030	--	2,822,250.00	3,742,491.78	3,670,293.76	3,897,900.00		
2031	--	2,911,000.00	3,985,178.16	3,787,343.76	4,010,650.00		
2032	--	3,029,250.00	3,995,350.80	3,899,893.76	4,132,550.00		
2033	--	--	4,195,744.00	4,021,443.76	4,256,500.00		
2034	--	--	4,239,787.28	4,152,493.76	4,382,600.00		
2035	--	--	4,150,541.60	4,286,993.76	4,514,500.00		
2036	--	--	4,657,464.80	4,429,243.76	4,651,550.00		
2037	--	--	4,923,768.00	4,569,243.76	4,793,000.00		
2038	--	--	3,007,292.50	4,830,543.76	4,933,150.00		
2039	--	--	3,150,862.50	4,986,918.76	5,081,550.00		
2040	--	--	3,261,727.50	5,146,512.50	5,237,250.00		
2041	--	--	4,495,725.00	5,367,925.00	5,394,300.00		
2042	--	--	4,776,448.32	4,524,550.00	5,547,000.00		
2043	--	--	5,279,767.99	4,707,950.00	5,668,700.00		
2044	--	--	3,770,000.00	4,799,600.00	5,838,600.00		
2045	--	--	--	--	6,017,987.50		
2046	--	--	--	--	6,201,225.00		
2047	--	--	--	--	6,387,562.50		
2048	--	--	--	--	6,571,162.50		
2049	--	--	--	--	6,771,487.50		
TOTAL	\$1,357,725.00	\$12,168,500.00	\$72,669,615.83	\$77,532,381.38	\$115,857,425.00	\$	\$

Source: Franklin-McKinley School District.

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 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific item of tax preference for purposes of the alternative minimum tax imposed on individuals. However, interest on the Bonds is taken into account in determining the annual adjusted financial statement income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. A complete copy of the proposed form of Opinion of Bond Counsel is set forth in Appendix A attached hereto.

The difference between the issue price of a Bond (the first price at which a substantial amount of the 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 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 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the 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 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 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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 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 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Owner’s basis in the applicable 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 Bond premium may result in an Owner realizing a taxable gain when a 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 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 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 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the 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 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 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 BONDS OR THE MARKET VALUE OF THE 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 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 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 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 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 Bonds for federal income tax purposes with respect to any 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 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 Bonds and the accrual or receipt of interest (and original issue discount) on the 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 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

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. Notwithstanding such analysis, there is no judicial precedent binding on the District with respect to the treatment in bankruptcy proceedings of *ad valorem* property tax revenues collected for the payment of bonds. Accordingly, 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.

Continuing Disclosure

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

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 2025-26 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. As required by its continuing disclosure undertaking related to the 2001 Series A Bonds, the District did not file a list of the top ten property owners in the District with its annual reports with respect to fiscal year 2020-21. The non-conforming filing has now been corrected. Other than this non-conforming 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, 2025, 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 January 21, 2026 of Christy White, Inc. (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 \$_____, plus net issue premium of \$_____, and less the Underwriter’s discount of \$_____).

The purchase contract for the Bonds provides 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 page 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 2026 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 2026 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 is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, interest on the Bonds is taken into account in determining the annual adjusted statement of income of certain corporations for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is 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 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 Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the 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
2024-2025 AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

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FRANKLIN-MCKINLEY SCHOOL DISTRICT

**AUDIT REPORT
JUNE 30, 2025**



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FINANCIAL SECTION

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTSIndependent Auditors' Report

Governing Board
Franklin-McKinley School District
San Jose, California

Report on the Audit of the Financial Statements***Opinions***

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, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Franklin-McKinley School District's basic financial statements as listed in the table of contents.

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, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter*Change in Accounting Principle*

As described in Note 1 to the financial statements, the Franklin-McKinley School District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements (continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information, schedules of proportionate share of net pension liability, and schedules of district contributions for pensions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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.

Supplementary 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 supplementary information listed in the table of contents, including the 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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Local Education Agency Organization Structure but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2026 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 the 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.

Christy White, Inc.

San Diego, California
January 21, 2026

FRANKLIN-MCKINLEY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

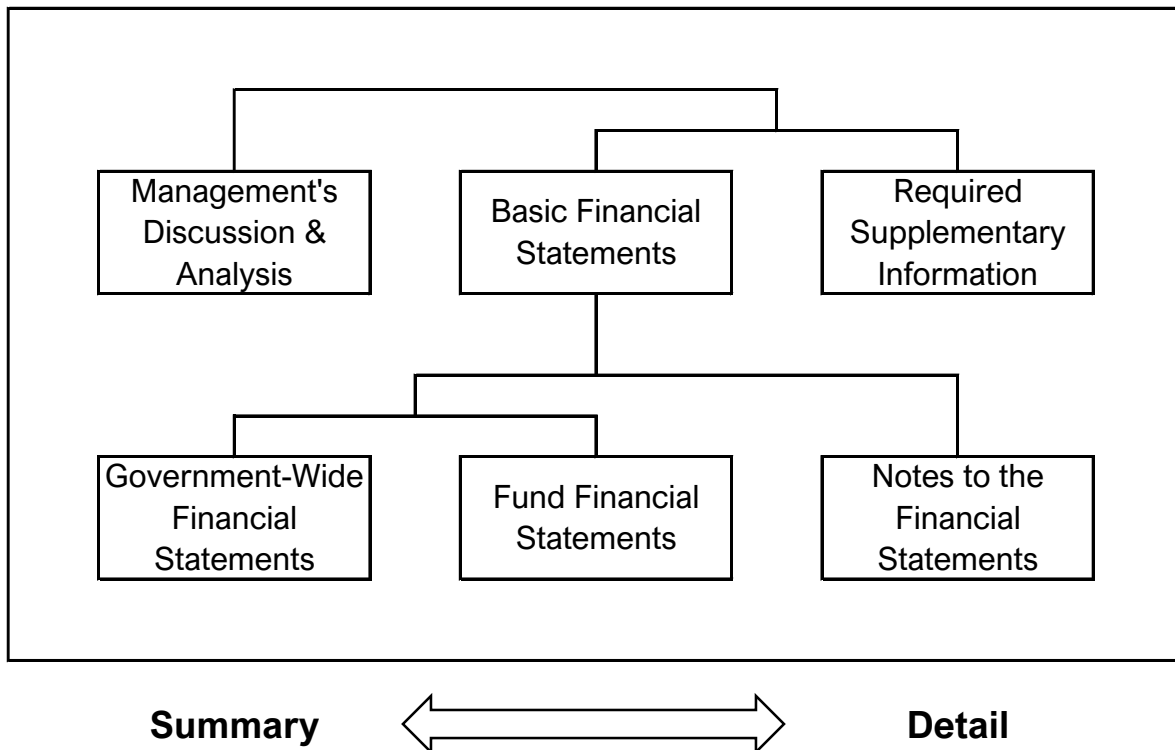
Our discussion and analysis of Franklin-McKinley School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2025. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position was \$12,466,583 at June 30, 2025. This was an increase of \$2,063,110 from the prior year, after restatement.
- Overall revenues were \$146,936,180 which exceeded expenses of \$144,873,070.
- The District's General Fund had \$119,145,421 in revenues and \$130,435,201 in expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financial Section



**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Components of the Financial Section (continued)

This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
 - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
 - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Local control formula funding and federal and state grants finance most of these activities.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's net position was \$12,466,583 at June 30, 2025, as reflected in the table below. Of this amount, \$(65,477,917) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the Governing Board's ability to use that net position for day-to-day operations.

	Governmental Activities		
	2025	2024	Net Change
ASSETS			
Current and other assets	\$ 117,814,925	\$ 128,528,499	\$ (10,713,574)
Capital assets	213,478,438	192,831,869	20,646,569
Total Assets	331,293,363	321,360,368	9,932,995
DEFERRED OUTFLOWS OF RESOURCES	30,655,236	37,117,238	(6,462,002)
LIABILITIES			
Current liabilities	28,126,547	34,385,075	(6,258,528)
Long-term liabilities	307,163,901	289,481,259	17,682,642
Total Liabilities	335,290,448	323,866,334	11,424,114
DEFERRED INFLOWS OF RESOURCES	14,191,568	13,819,493	372,075
NET POSITION			
Net investment in capital assets	38,517,391	34,421,526	4,095,865
Restricted	39,427,109	43,092,240	(3,665,131)
Unrestricted	(65,477,917)	(56,721,987)	(8,755,930)
Total Net Position	\$ 12,466,583	\$ 20,791,779	\$ (8,325,196)

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the Statement of Activities. The table below takes the information from the Statement and rearranges it slightly, so you can see our total revenues and expenses for the year.

	Governmental Activities		
	2025	2024	Net Change
REVENUES			
Program revenues			
Charges for services	\$ 364,410	\$ 114,251	\$ 250,159
Operating grants and contributions	34,348,045	45,055,379	(10,707,334)
General revenues			
Property taxes	49,207,765	49,720,386	(512,621)
Unrestricted federal and state aid	50,471,676	53,859,553	(3,387,877)
Other	12,544,284	6,310,622	6,233,662
Total Revenues	146,936,180	155,060,191	(8,124,011)
EXPENSES			
Instruction	82,086,574	93,304,416	(11,217,842)
Instruction-related services	15,724,118	15,587,478	136,640
Pupil services	16,009,618	17,245,843	(1,236,225)
General administration	9,138,672	8,916,466	222,206
Plant services	12,212,083	11,620,130	591,953
Ancillary services	260,879	338,447	(77,568)
Debt service	8,377,502	7,233,608	1,143,894
Other outgo	1,063,624	346,161	717,463
Total Expenses	144,873,070	154,592,549	(9,719,479)
Change in net position	2,063,110	467,642	1,595,468
Net Position - Beginning, as Restated*	10,403,473	20,324,137	(9,920,664)
Net Position - Ending	\$ 12,466,583	\$ 20,791,779	\$ (8,325,196)

**Beginning net position was restated for the 2025 year only.*

The cost of all our governmental activities this year was \$144,873,070 (refer to the table above). The amount that our taxpayers ultimately financed for these activities through taxes was only \$49,207,765 because a portion of the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE (continued)

Changes in Net Position (continued)

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

	Net Cost of Services	
	2025	2024
Instruction	\$ 66,522,885	\$ 72,763,461
Instruction-related services	14,981,704	11,903,966
Pupil services	7,950,791	5,696,061
General administration	8,562,747	6,632,331
Plant services	5,677,845	6,528,484
Ancillary services	147,156	20,019
Debt service	8,377,502	7,233,608
Transfers to other agencies	(2,060,015)	(1,355,011)
Total	\$ 110,160,615	\$ 109,422,919

FINANCIAL ANALYSIS OF THE DISTRICT'S MAJOR FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$94,131,081, which is less than last year's ending fund balance of \$98,776,381. The District's General Fund had \$11,289,780 less in operating revenues than expenditures for the year ended June 30, 2025. The District's Building Fund had \$21,477,219 less in operating revenues than expenditures for the year ended June 30, 2025, combined with other financing sources of \$23,000,000, resulting in a net increase in fund balance of \$1,522,781. The District's Bond Interest and Redemption Fund had \$1,045,652 less in operating revenues than expenditures for the year ended June 30, 2025, combined with other financing sources of \$2,811,967, resulting in a net increase in fund balance of \$1,766,315.

CURRENT YEAR BUDGET 2024-2025

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a regular basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

By the end of 2024-2025 the District had invested \$213,478,438 in capital assets, net of accumulated depreciation and amortization.

	Governmental Activities		
	2025	2024	Net Change
CAPITAL ASSETS			
Land	\$ 1,565,500	\$ 1,565,500	\$ -
Construction in progress	18,460,912	10,858,570	7,602,342
Buildings & improvements	332,454,161	308,096,162	24,357,999
Furniture & equipment	11,335,405	10,584,025	751,380
Less: Accumulated depreciation	(150,961,799)	(138,749,372)	(12,212,427)
Subscription assets	1,130,532	682,266	448,266
Less: Accumulated amortization	(506,273)	(205,282)	(300,991)
Total	\$ 213,478,438	\$ 192,831,869	\$ 20,646,569

Long-Term Liabilities

At year-end, the District had \$307,163,901 in long-term liabilities, an increase of 2.43% from last year, after restatement – as shown in the table below. More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.

	Governmental Activities		
	2025	2024	Net Change
LONG-TERM LIABILITIES			
Total general obligation bonds	\$ 203,624,379	\$ 184,551,397	\$ 19,072,982
Financed purchases	10,085,000	10,760,000	(675,000)
Subscriptions	247,144	682,266	(435,122)
Non-healthcare related termination benefits liability	2,829,398	880,214	1,949,184
Compensated absences*	10,095,226	10,838,064	(742,838)
Healthcare related termination benefits liability	361,911	376,251	(14,340)
Net pension liability	87,298,287	99,967,638	(12,669,351)
Less: current portion of long-term liabilities	(7,377,444)	(8,186,265)	808,821
Total	\$ 307,163,901	\$ 299,869,565	\$ 7,294,336

**Compensated Absences for 2024 was restated in order to record the District's compensated absences in accordance with GASB Statement No. 101 which supersedes GASB Statement No. 16 for the year ended June 30, 2025.*

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Several economic and fiscal factors could influence the District's financial condition in the coming year, including continued enrollment declines, uncertain Federal and State revenues, high pension obligations, and a cooling California economy.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (continued)

Long-Term Declining Enrollment

California's K–12 system continues to experience enrollment decline. Statewide enrollment fell another 0.5% in 2024–25 to about 5.8 million students, roughly 420,000 fewer than a decade ago. The Department of Finance projects an additional 586,000-student decline by 2033–34. Lower birth rates, high housing costs, and out-migration are key drivers, along with growing competition from charter and private schools. Because many costs—such as staffing and facilities—cannot easily adjust, revenue loss from declining Average Daily Attendance (ADA) creates structural fiscal challenges that require multi-year planning.

Revenue Uncertainties

- **Status of Proposition 98:** The 2025–26 State Budget sets the Proposition 98 guarantee at \$114.6 billion, slightly below earlier projections. To maintain K–12 funding commitments amid weaker tax receipts, the State relied on reserve drawdowns, internal borrowing, and limited deferrals. The outlook remains fragile since Proposition 98 revenues are highly sensitive to income-tax and capital-gains fluctuations. A market slowdown could trigger future adjustments. The Legislative Analyst's Office urges districts to budget cautiously and preserve flexibility given ongoing volatility.
- **Federal Funding Uncertainties:** Federal funding for K–12 education remains uncertain heading into 2025–26. Several large federal programs—including Title I, Title II, IDEA, and after-school and enrichment grants—face potential reductions or delays under current federal budget proposals and continuing appropriations negotiations. The U.S. Department of Education has also paused or delayed disbursement of certain previously approved formula and competitive grants, creating short-term cash-flow and planning challenges for districts. Analyses by nonpartisan agencies such as the Congressional Budget Office and the Learning Policy Institute note that up to \$5–6 billion in K-12 formula funds nationwide remain at risk of reduction or deferral if congressional appropriations are not finalized. While districts are expected to continue receiving baseline allocations during temporary funding resolutions, long-term federal support levels for education could decline modestly in real terms, requiring districts to plan for possible funding interruptions or reductions in future years.

Pension Liabilities and Employer Rates

The District participates in CalSTRS and CalPERS, both of which remain underfunded and continue to exert upward pressure on budgets. For 2025–26, the CalSTRS employer rate is 19.10%, and the CalPERS Schools Pool rate is 26.81%. These elevated rates—well above pre-2014 levels—will likely persist through the decade as both systems address unfunded liabilities. Districts must continue to account for escalating pension costs in long-range projections.

Economic and Market Conditions

California's economy has cooled following its post-pandemic rebound. High interest rates, weaker venture investment, and commercial-real-estate softness have slowed growth, especially in tech-dependent regions. The UCLA Anderson Forecast (Fall 2025) expects subdued growth into 2026, with unemployment near 5%. Inflation has eased, but interest-rate uncertainty continues to constrain housing and business investment.

Because the State's tax base depends heavily on capital-gains income, stock-market volatility remains a major risk to General Fund and Proposition 98 revenues. Fiscal advisors therefore recommend that districts maintain prudent reserves and avoid long-term commitments based on one-time revenue gains.

Summary

Declining enrollment, volatile revenues, persistent pension costs, and broader economic uncertainty all contribute to a challenging fiscal environment for California school districts. The District's 2025–26 budget reflects these conditions through conservative revenue assumptions, strong reserves, and continued monitoring of State fiscal trends.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2025**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Business Office, at 645 Wool Creek Dr., San Jose, CA 95112.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2025

	Governmental Activities
ASSETS	
Cash and investments	\$ 102,648,468
Accounts receivable	9,106,487
Inventory	75,285
Prepaid expenses	931,455
Other current assets	326,744
Lease receivable	4,726,486
Capital assets:	
Capital assets, not depreciated	20,026,412
Capital assets, net of accumulated depreciation	192,827,767
Subscription assets, net of accumulated amortization	624,259
Total Assets	<u>331,293,363</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	26,411,462
Deferred amount on refunding	4,243,774
Total Deferred Outflows of Resources	<u>30,655,236</u>
LIABILITIES	
Accrued liabilities	15,621,572
Unearned revenue	5,127,531
Long-term liabilities, current portion	7,377,444
Long-term liabilities, non-current portion	307,163,901
Total Liabilities	<u>335,290,448</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	10,121,590
Deferred inflows related to leases	4,069,978
Total Deferred Inflows of Resources	<u>14,191,568</u>
NET POSITION	
Net investment in capital assets	38,517,391
Restricted:	
Capital projects	12,010,318
Debt service	10,390,070
Educational programs	7,083,835
Food service	8,004,188
Associated student body	133,606
All others	1,805,092
Unrestricted	(65,477,917)
Total Net Position	<u>\$ 12,466,583</u>

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

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

Function/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 82,086,574	\$ 12,248	\$ 15,551,441	\$ (66,522,885)
Instruction-related services				
Instructional supervision and administration	3,278,650	726	297,833	(2,980,091)
Instructional library, media, and technology	1,060,700	-	332,866	(727,834)
School site administration	11,384,768	5,140	105,849	(11,273,779)
Pupil services				
Home-to-school transportation	3,375,002	40	69,452	(3,305,510)
Food services	7,747,793	-	7,984,109	236,316
All other pupil services	4,886,823	-	5,226	(4,881,597)
General administration				
Centralized data processing	2,433,134	627	17,918	(2,414,589)
All other general administration	6,705,538	14	557,366	(6,148,158)
Plant services	12,212,083	203,663	6,330,575	(5,677,845)
Ancillary services	260,879	-	113,723	(147,156)
Interest on long-term debt	8,377,502	-	-	(8,377,502)
Other outgo	1,063,624	141,952	2,981,687	2,060,015
Total Governmental Activities	\$ 144,873,070	\$ 364,410	\$ 34,348,045	(110,160,615)
General revenues				
Taxes and subventions				
Property taxes, levied for general purposes				33,785,130
Property taxes, levied for debt service				12,505,015
Property taxes, levied for other specific purposes				2,917,620
Federal and state aid not restricted for specific purposes				50,471,676
Interest and investment earnings				3,098,738
Miscellaneous				9,445,546
Subtotal, General Revenue				112,223,725
CHANGE IN NET POSITION				2,063,110
Net Position - Beginning, as Restated				10,403,473
Net Position - Ending				\$ 12,466,583

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2025

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 42,095,833	\$ 26,593,701	\$ 13,140,147	\$ 19,285,991	\$ 101,115,672
Accounts receivable	6,865,507	254,071	190,252	1,786,908	9,096,738
Due from other funds	154,395	-	-	12,305	166,700
Stores inventory	-	-	-	75,285	75,285
Prepaid expenditures	921,455	-	-	-	921,455
Lease receivable	4,726,486	-	-	-	4,726,486
Total Assets	\$ 54,763,676	\$ 26,847,772	\$ 13,330,399	\$ 21,160,489	\$ 116,102,336
LIABILITIES					
Accrued liabilities	\$ 11,231,809	\$ 580,478	\$ -	\$ 784,955	\$ 12,597,242
Due to other funds	22,109	2,258	-	152,137	176,504
Unearned revenue	5,127,531	-	-	-	5,127,531
Total Liabilities	16,381,449	582,736	-	937,092	17,901,277
DEFERRED INFLOWS					
Deferred inflows related to leases	4,069,978	-	-	-	4,069,978
Total Deferred Inflows	4,069,978	-	-	-	4,069,978
FUND BALANCES					
Nonspendable	946,455	-	-	75,285	1,021,740
Restricted	7,083,835	26,265,036	13,330,399	20,148,112	66,827,382
Committed	3,672,219	-	-	-	3,672,219
Assigned	18,698,047	-	-	-	18,698,047
Unassigned	3,911,693	-	-	-	3,911,693
Total Fund Balances	34,312,249	26,265,036	13,330,399	20,223,397	94,131,081
Total Liabilities, Deferred Inflows and Fund Balances	\$ 54,763,676	\$ 26,847,772	\$ 13,330,399	\$ 21,160,489	\$ 116,102,336

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
POSITION
JUNE 30, 2025

Total Fund Balance - Governmental Funds \$ 94,131,081

Amounts reported for assets and liabilities for governmental activities in the statement of net position are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net position, all assets are reported, including capital assets, subscription assets, accumulated depreciation and accumulated amortization:

Capital assets	\$ 363,815,978	
Subscription assets	1,130,532	
Accumulated depreciation	(150,961,799)	
Accumulated amortization (subscription assets)	<u>(506,273)</u>	213,478,438

Deferred amount on refunding:

In governmental funds, the net effect of refunding bonds is recognized when debt is issued, whereas this amount is deferred and amortized in the government-wide financial statements:

4,243,774

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:

(2,940,329)

Long-term liabilities:

In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Total general obligation bonds	\$ 203,624,379	
Financed purchases	10,085,000	
Subscriptions	247,144	
Non-healthcare related termination benefits liability	2,829,398	
Compensated absences	10,095,226	
Healthcare related termination benefits liability	361,911	
Net pension liability	<u>87,298,287</u>	(314,541,345)

(Continued on the following page)

FRANKLIN-MCKINLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
POSITION, continued
JUNE 30, 2025

Deferred outflows and inflows of resources relating to pensions:

In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

Deferred outflows of resources related to pensions	\$ 26,411,462	
Deferred inflows of resources related to pensions	<u>(10,121,590)</u>	16,289,872

Internal service funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of internal service funds are reported with governmental activities in the statement of net position. Net position for internal service funds is:

1,805,092

Total Net Position - Governmental Activities

\$ 12,466,583

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2025**

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
LCFF sources	\$ 82,079,831	\$ -	\$ -	\$ -	\$ 82,079,831
Federal sources	4,890,094	-	-	5,514,914	10,405,008
Other state sources	22,369,412	-	50,024	2,970,662	25,390,098
Other local sources	9,806,084	1,452,507	13,112,347	2,337,087	26,708,025
Total Revenues	119,145,421	1,452,507	13,162,371	10,822,663	144,582,962
EXPENDITURES					
Current					
Instruction	84,957,549	-	-	-	84,957,549
Instruction-related services					
Instructional supervision and administration	3,753,845	-	-	-	3,753,845
Instructional library, media, and technology	964,870	-	-	-	964,870
School site administration	9,535,606	-	-	-	9,535,606
Pupil services					
Home-to-school transportation	3,162,638	-	-	-	3,162,638
Food services	490,371	-	-	6,944,673	7,435,044
All other pupil services	5,376,825	-	-	-	5,376,825
General administration					
Centralized data processing	2,098,737	-	-	-	2,098,737
All other general administration	6,193,559	-	-	146,258	6,339,817
Plant services	11,457,132	-	-	-	11,457,132
Facilities acquisition and construction	670,716	21,669,770	-	593,268	22,933,754
Ancillary services	-	-	-	231,346	231,346
Transfers to other agencies	880,124	-	-	-	880,124
Debt service					
Principal	883,388	675,000	6,444,000	-	8,002,388
Interest and other	9,841	584,956	7,764,023	-	8,358,820
Total Expenditures	130,435,201	22,929,726	14,208,023	7,915,545	175,488,495
Excess (Deficiency) of Revenues Over Expenditures	(11,289,780)	(21,477,219)	(1,045,652)	2,907,118	(30,905,533)
Other Financing Sources (Uses)					
Other sources	448,266	23,000,000	2,811,967	-	26,260,233
Net Financing Sources (Uses)	448,266	23,000,000	2,811,967	-	26,260,233
NET CHANGE IN FUND BALANCE	(10,841,514)	1,522,781	1,766,315	2,907,118	(4,645,300)
Fund Balance - Beginning	45,153,763	24,742,255	11,564,084	17,316,279	98,776,381
Fund Balance - Ending	\$ 34,312,249	\$ 26,265,036	\$ 13,330,399	\$ 20,223,397	\$ 94,131,081

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

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

Net Change in Fund Balances - Governmental Funds \$ (4,645,300)

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets, including subscription assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets, including subscription assets are allocated over their estimated useful lives as depreciation expense and amortization expense, respectively.

Expenditures for capital outlay:	\$	24,041,139	
Depreciation expense:		(12,212,427)	
Amortization expense (subscription assets):		(300,991)	11,527,721

Debt service:

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

8,002,388

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(26,260,233)

Deferred amounts on refunding:

In governmental funds, deferred amounts on refunding are recognized in the period they are incurred. In the government-wide statements, the deferred amounts on refunding are amortized over the life of the debt. The net effect of the deferred amounts on refunding during the period was:

(110,625)

Donated capital assets:

In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was:

19,755,153

Unmatured interest on long-term debt:

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

(386,542)

(Continued on the following page)

**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, 2025**

Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was:

742,838

Pensions:

In governmental funds, pension costs are recognized when employer contributions are made. In the government-wide statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and employer contributions was:

5,698,745

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

(1,934,844)

Cost write-off for canceled capital projects:

If a planned capital project is canceled and will not be completed, costs previously capitalized as Work-in-progress must be written off to expense. Costs written off for canceled projects were:

(10,636,305)

Amortization of debt issuance premium or discount:

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized over the life of the debt. Amortization of premium or discount for the period is:

294,985

Internal Service Funds:

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

15,129

Change in Net Position of Governmental Activities

\$ 2,063,110

FRANKLIN-MCKINLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2025

	Governmental Activities Internal Service Fund
ASSETS	
Current assets	
Cash and investments	\$ 1,532,796
Accounts receivable	9,749
Due from other funds	9,804
Prepaid expenses	10,000
Other assets	326,744
Total current assets	1,889,093
Total Assets	1,889,093
LIABILITIES	
Current liabilities	
Claims liability	84,001
Total Liabilities	84,001
NET POSITION	
Restricted	1,805,092
Total Net Position	\$ 1,805,092

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

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2025**

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES	
Charges for services	\$ 1,238,560
Total operating revenues	<u>1,238,560</u>
OPERATING EXPENSES	
Professional services	<u>1,283,926</u>
Total operating expenses	<u>1,283,926</u>
Operating income/(loss)	<u>(45,366)</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	<u>60,495</u>
Total non-operating revenues/(expenses)	<u>60,495</u>
CHANGE IN NET POSITION	15,129
Net Position - Beginning	<u>1,789,963</u>
Net Position - Ending	<u>\$ 1,805,092</u>

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

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2025**

	Governmental Activities Internal Service Fund
Cash flows from operating activities	
Cash received from user charges	\$ 1,236,578
Cash payments for payroll, insurance, and operating costs	(1,226,904)
Net cash provided by (used for) operating activities	9,674
Cash flows from investing activities	
Interest received	60,495
Net cash provided by (used for) investing activities	60,495
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	70,169
 CASH AND CASH EQUIVALENTS	
Beginning of year	1,462,627
End of year	\$ 1,532,796
 Reconciliation of operating income (loss) to cash provided by (used for) operating activities	
Operating income/(loss)	\$ (45,366)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	(394)
(Increase) decrease in due from other funds	(1,588)
(Increase) decrease in other assets	47,060
Increase (decrease) in accrued liabilities	9,962
Net cash provided by (used for) operating activities	\$ 9,674

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Franklin-McKinley School District (the “District”) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The District operates under a locally elected Board form of government and provides educational services to grades K-8 as mandated by the state. 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 and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student-related activities.

B. 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. The District has no such component units.

C. Basis of Presentation

Government-Wide Statements. The statement of net position and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. 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 of 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.

Fund Financial Statements. The fund financial statements provide information about the District's funds, including its proprietary funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Governmental funds are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the District, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Major Governmental Funds

General Fund: The General Fund is the main operating fund of the District. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of the District's activities are reported in the General Fund unless there is a compelling reason to account for an activity in another fund. A District may have only one General Fund.

Building Fund: This fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code Section 15146*) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund are proceeds from the sale or lease-with-option-to-purchase of real property (*Education Code Section 17462*) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (*Education Code Section 41003*).

Bond Interest and Redemption Fund: This fund is used for the repayment of bonds issued for the District (*Education Code Sections 15125–15262*). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund of the District. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund of the District. The county auditor maintains control over the District's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Non-Major Governmental Funds

Special Revenue Funds: Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

Student Activity Fund: This fund may be used to account for student body activities that do not meet the fiduciary criteria established in GASB Statement No. 84.

Cafeteria Fund: This fund is used to account separately for federal, state, and local resources to operate the food service program (*Education Code Sections 38090–38093*). The Cafeteria Fund shall be 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*).

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

Capital Facilities Fund: This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (*Education Code Sections 17620–17626*). The authority for these levies may be county/city ordinances (*Government Code Sections 65970–65981*) or private agreements between the District and the developer. Interest earned in the Capital Facilities Fund is restricted to that fund (*Government Code Section 66006*).

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Non-Major Governmental Funds (continued)

Capital Project Funds: (continued)

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

Special Reserve Fund for Capital Outlay Projects: This fund exists primarily to provide for the accumulation of General Fund moneys for capital outlay purposes (*Education Code Section 42840*).

Proprietary Funds

Internal Service Funds: Internal service funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

Self-Insurance Fund: Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of the District. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (*Education Code Section 17566*).

D. Basis of Accounting – Measurement Focus

Government-Wide and Proprietary Fund Financial Statements

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position equals assets and deferred outflows of resources minus liabilities and deferred inflows of resources. 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. The net position should be reported as restricted when constraints placed on its 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. The net position restricted for other activities results from special revenue funds and the restrictions on their use.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self-insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting – Measurement Focus (continued)

Governmental Funds

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, “available” means collectible within the current period or within 60 days after year-end. However, to achieve comparability of reporting among California school 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 school districts as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue

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

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position

Cash and Cash Equivalents

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

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Lease Receivables

Lease receivables are measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectable amounts. An associated deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable, plus any prepayments at the beginning of the lease. The deferred inflow is amortized on a straight-line basis over the term of the lease.

Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption.

Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB Statement No. 34. 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. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	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 "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

Compensated Absences

In accordance with GASB Statement No. 101, *Compensated Absences*, accumulated unpaid employee vacation and sick leave benefits are accrued as a liability in the government-wide financial statements as the benefits are earned, provided they accumulate and are more likely than not to be used or paid. The measurement of this liability includes estimated salary amounts and the employer's share of related taxes and benefits, as applicable, that are directly related to these compensated absences.

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 recorded in the fund from which the employees who have accumulated leave are paid. For accumulated sick leave benefits, a liability is recognized for the portion that employees have earned and that are more likely than not to be used or paid. The District's policy for sick leave recognition aligns with this criterion, accruing the liability based on historical usage patterns and other relevant factors.

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 funds.

Premiums and Discounts

In the government-wide and proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pensions

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Fund Balance and Net Position (continued)

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, lease receivables (net of related deferred inflows), prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

Restricted - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

Assigned - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

Unassigned - In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 activities columns of the statement of activities.

G. 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.

H. Budgetary Data

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

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

I. 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 Auditor-Controller bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. New Accounting Pronouncements

GASB Statement No. 101 – In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for periods beginning after December 15, 2023. The District has implemented this Statement as of June 30, 2025.

GASB Statement No. 102 – In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. This statement is effective for periods beginning after June 15, 2024. The District has implemented this Statement as of June 30, 2025.

GASB Statement No. 103 – In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The statement is effective for periods beginning after June 15, 2025. The District has not yet determined the impact on the financial statements.

GASB Statement No. 104 – In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The statement is effective for periods beginning after June 15, 2025. The District has not yet determined the impact on the financial statements.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

	Governmental Funds	Internal Service Fund	Governmental Activities
Investment in county treasury	\$ 100,730,321	\$ 1,530,983	\$ 102,261,304
Fair value adjustment	119,292	1,813	121,105
Cash on hand and in banks	241,059	-	241,059
Cash in revolving fund	25,000	-	25,000
Total	\$ 101,115,672	\$ 1,532,796	\$ 102,648,468

B. 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; collateralized mortgage obligations; and the County Investment Pool.

Investment in County Treasury – The District maintains substantially all of its cash in the County Treasury in accordance with *Education Code Section 41001*. The Santa Clara County Treasurer’s pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County’s investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Chief Administrative Officer, Superintendent of Schools Representative, and a public member. The fair value of the District’s investment in the pool is 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.

C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies the investment types permitted by California Government Code.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 2 – CASH AND INVESTMENTS (continued)

C. General Authorizations (continued)

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains a pooled investment with the County Treasury with a fair value of approximately \$102,382,409. The average weighted maturity for this pool is 415 days.

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments in the County Treasury are not required to be rated.

F. Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2025, the District's bank balance was not exposed to custodial credit risk.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 2 – CASH AND INVESTMENTS (continued)

G. Fair Value

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Santa Clara County Treasury Investment Pool are not measured 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.

The District's fair value measurements at June 30, 2025 were as follows:

	Uncategorized
Investment in county treasury	\$ 102,382,409
Total	\$ 102,382,409

NOTE 3 – RECEIVABLES

A. Accounts Receivable

Receivables at June 30, 2025, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Internal Service Fund	Governmental Activities
Federal Government						
Categorical aid	\$ 2,578,930	\$ -	\$ -	\$ 875,189	\$ -	\$ 3,454,119
State Government						
Categorical aid	1,643,956	-	-	493,827	-	2,137,783
Lottery	422,198	-	-	-	-	422,198
Local Government						
Other local sources	2,220,423	254,071	190,252	417,892	9,749	3,092,387
Total	\$ 6,865,507	\$ 254,071	\$ 190,252	\$ 1,786,908	\$ 9,749	\$ 9,106,487

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 3 – RECEIVABLES (continued)

B. Lease Receivables

For the year ended June 30, 2025, the financial statements include the adoption of GASB Statement No. 87, Leases. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. For additional information, refer to the disclosures below.

As of June 30, 2025, Franklin-McKinley School District had 6 active leases. The leases have receipts that range from \$1 to \$108,499 and interest rates that range from 0% to 4.76%. As of June 30, 2025, the total combined value of the lease receivable is \$4,726,486, the total combined value of the short-term lease receivable is \$170,819, and the combined value of the deferred inflow of resources is \$4,069,978. The leases had \$0 of Variable Receipts and \$0 of Other Receipts, not included in the Lease Receivable, within the Fiscal Year.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2025 was as follows:

	Balance July 01, 2024	Additions	Deletions	Balance June 30, 2025
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,565,500	\$ -	\$ -	\$ 1,565,500
Construction in progress	10,858,570	18,238,647	10,636,305	18,460,912
Total capital assets not being depreciated	12,424,070	18,238,647	10,636,305	20,026,412
Capital assets being depreciated				
Buildings & improvements	308,096,162	24,357,999	-	332,454,161
Furniture & equipment	10,584,025	751,380	-	11,335,405
Total capital assets being depreciated	318,680,187	25,109,379	-	343,789,566
Less: Accumulated depreciation				
Buildings & improvements	131,750,834	11,423,904	-	143,174,738
Furniture & equipment	6,998,538	788,523	-	7,787,061
Total accumulated depreciation	138,749,372	12,212,427	-	150,961,799
Total capital assets being depreciated, net	179,930,815	12,896,952	-	192,827,767
Subscription assets being amortized	682,266	448,266	-	1,130,532
Less: Accumulated amortization for subscription assets	205,282	300,991	-	506,273
Total subscription assets being amortized, net	476,984	147,275	-	624,259
Governmental Activities				
Capital Assets, net	\$ 192,831,869	\$ 31,282,874	\$ 10,636,305	\$ 213,478,438

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 4 – CAPITAL ASSETS (continued)

Depreciation and amortization expense was charged to governmental activities as follows:

Instruction	\$ 7,532,729
Instructional supervision and administration	217,445
Instructional library, media, and technology	93,248
School site administration	899,991
Home-to-school transportation	282,163
Food services	539,856
All other pupil services	541,111
Centralized data processing	777,502
All other general administration	514,541
Plant services	1,085,299
Ancillary services	29,533
Total	\$ 12,513,418

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

Individual interfund receivable and payable balances at June 30, 2025 were as follows:

	Due From Other Funds			
	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Due To Other Funds				
General Fund	\$ -	\$ 12,305	\$ 9,804	\$ 22,109
Building Fund	2,258	-	-	2,258
Non-Major Governmental Funds	152,137	-	-	152,137
Total	\$ 154,395	\$ 12,305	\$ 9,804	\$ 176,504

Due from the General Fund to the Cafeteria Fund for summer program supper and snacks.	\$ 12,305
Due from the General Fund to the Internal Service Fund for dental and vision expenses.	9,804
Due from the Cafeteria Fund to the General Fund for indirect costs.	150,400
Due from the Building Fund to the General Fund for expenses.	2,258
Due from the Capital Facilities Fund to the General Fund for rent expense.	1,737
Total	\$ 176,504

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities at June 30, 2025 consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	District-Wide	Governmental Activities
Payroll	\$ 434,799	\$ 1,424	\$ 15,098	\$ -	\$ -	\$ 451,321
Construction	-	579,054	546,319	-	-	1,125,373
Vendors payable	10,797,010	-	223,538	84,001	-	11,104,549
Unmatured interest	-	-	-	-	2,940,329	2,940,329
Total	\$ 11,231,809	\$ 580,478	\$ 784,955	\$ 84,001	\$ 2,940,329	\$ 15,621,572

NOTE 7 – UNEARNED REVENUE

Unearned revenue at June 30, 2025 consisted of the following:

	General Fund
State categorical sources	\$ 324,498
Local sources	4,803,033
Total	\$ 5,127,531

NOTE 8 – LONG-TERM LIABILITIES

Summary

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

	Restated Balance July 01, 2024	Additions	Deductions	Balance June 30, 2025	Balance Due In One Year
Governmental Activities					
General obligation bonds	\$ 170,254,017	\$ 23,000,000	\$ 6,444,000	\$ 186,810,017	\$ 4,834,000
Unamortized premium	5,810,714	2,811,967	294,985	8,327,696	442,540
Accreted interest	8,486,666	-	-	8,486,666	-
Total general obligation bonds	184,551,397	25,811,967	6,738,985	203,624,379	5,276,540
Financed purchases	10,760,000	-	675,000	10,085,000	750,000
Subscriptions	682,266	448,266	883,388	247,144	172,002
Non-healthcare related termination benefits liability	880,214	2,377,600	428,416	2,829,398	225,899
Compensated absences*	10,838,064	-	742,838	10,095,226	917,897
Healthcare related termination benefits liability	376,251	-	14,340	361,911	35,106
Net pension liability	99,967,638	-	12,669,351	87,298,287	-
Total	\$ 308,055,830	\$ 28,637,833	\$ 22,152,318	\$ 314,541,345	\$ 7,377,444

*The change in the compensated absences liability is presented as a net change.

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

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 8 – LONG-TERM LIABILITIES (continued)

A. General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Additions	Deductions	Bonds	
					Outstanding	July 01, 2024			Outstanding	June 30, 2025
2006 Refunding	2006	2028	3.25-5.25%	\$ 6,950,000	\$ 5,000,000		\$ -	\$ 1,000,000	\$ 4,000,000	
2010 Series A-1	2011	2035	3.25-5.25%	15,163,985	8,288,985		-	-	8,288,985	
2010 Series A-1 - AI					7,713,197		-	-	7,713,197	
2014 Refunding	2015	2025	3.00-5.00%	4,690,000	1,000,000		-	1,000,000	-	
2010 Series D	2015	2038	3.00-5.00%	4,835,000	1,845,000		-	150,000	1,695,000	
2016 Refunding	2016	2033	3.00-5.00%	13,425,000	12,395,000		-	135,000	12,260,000	
2016 Series A	2017	2045	2.00-4.00%	25,000,000	19,565,000		-	-	19,565,000	
2017 Refunding	2017	2036	2.00-4.00%	5,730,000	3,475,000		-	390,000	3,085,000	
2016 Series B	2018	2044	3.00-4.00%	30,000,000	28,615,000		-	260,000	28,355,000	
2016 Series C	2019	2041	3.00-4.00%	12,400,000	10,035,000		-	630,000	9,405,000	
2019 Refunding	2020	2044	3.23-3.35%	22,142,032	22,142,032		-	-	22,142,032	
2019 Refunding - AI					773,469		-	-	773,469	
2020 Series A	2021	2050	4.00%	27,000,000	19,480,000		-	560,000	18,920,000	
2022 Refunding A	2022	2036	2.40%	6,703,000	6,072,000		-	929,000	5,143,000	
2022 Refunding B	2022	2048	3.50%	2,380,000	2,341,000		-	-	2,341,000	
2020 Series B	2023	2049	5.00%	30,000,000	30,000,000		-	1,390,000	28,610,000	
2020 Series C	2024	2050	5.00%	23,000,000	-	23,000,000	-	-	23,000,000	
					\$ 178,740,683	\$ 23,000,000	\$ 6,444,000	\$ 195,296,683		

The general obligation bonds mature as follows:

Year Ended June 30,	Principal	Interest	Total
2026	\$ 4,834,000	\$ 7,056,790	\$ 11,890,790
2027	9,523,388	7,592,396	17,115,784
2028	4,966,424	8,466,230	13,432,654
2029	3,594,842	8,520,244	12,115,086
2030	4,050,461	8,509,397	12,559,858
2031 - 2035	33,282,100	33,478,495	66,760,595
2036 - 2040	46,026,770	26,769,685	72,796,455
2041 - 2045	54,957,032	19,437,041	74,394,073
2046 - 2050	25,575,000	3,244,036	28,819,036
Accretion	8,486,666	(8,486,666)	-
Total	\$ 195,296,683	\$ 114,587,648	\$ 309,884,331

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 8 – LONG-TERM LIABILITIES (continued)

B. Financed Purchases

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

The financed purchases have minimum lease payments as follows:

Year Ended June 30,	Principal	Interest	Total
2026	\$ 750,000	\$ 375,210	\$ 1,125,210
2027	830,000	346,027	1,176,027
2028	915,000	313,718	1,228,718
2029	1,010,000	278,187	1,288,187
2030	1,100,000	239,054	1,339,054
2031 - 2034	5,480,000	489,575	5,969,575
Total	\$ 10,085,000	\$ 2,041,771	\$ 12,126,771

C. Subscriptions

For the year ended June 30, 2025, the financial statements include the adoption of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The primary objective of this statement is to enhance the relevance and consistency of information about governments' subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset. For additional information, refer to the disclosures below.

Year Ended June 30,	Principal	Interest	Total
2026	\$ 172,002	\$ 5,389	\$ 177,391
2027	29,832	1,164	30,996
2028	30,210	786	30,996
2029	15,100	398	15,498
Total	\$ 247,144	\$ 7,737	\$ 254,881

As of June 30, 2025, Franklin-Mckinley School District had 15 active subscriptions. The subscriptions have payments that range from \$1,027 to \$358,559 and interest rates that range from 0% to 3.63%. As of June 30, 2025, the total combined value of the subscription liability is \$247,144, and the total combined value of the short-term subscription liability is \$172,002. The combined value of the right to use asset, as of 06/30/2025 is \$1,130,532 with accumulated amortization of \$506,273. The subscriptions had \$0 of Variable Payments and \$0 of Other Payments, not included in the Subscription Liability, within the Fiscal Year.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 8 – LONG-TERM LIABILITIES (continued)

D. Non-Healthcare Related Termination Benefits Liability

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

Year Ended June 30,	Principal
2026	\$ 225,899
2027	701,419
2028	475,520
2029	475,520
2030	475,520
2031	475,520
Total	\$ 2,829,398

E. Healthcare Related Termination Benefits Liability

The district provides retiree health care benefits, in accordance with District employment contracts, to three employees. The District contributes 100 percent of the amount of premiums incurred by the retirees. Expenditures for the benefits are recognized on a pay-as-you-go basis, as retiree's premiums are paid. During the year, expenditures of \$14,340 were recognized for retiree's health care benefits. The approximate accumulated future liability for the District at June 30, 2025, amounts to \$361,911. This amount was calculated based upon the three retirees receiving benefits multiplied by the District payment in effect at June 30, 2025, multiplied by the number of years of payments remaining, with health care cost trend rate of 7%.

These health care benefits mature as follows:

Year Ended June 30,	Principal
2026	\$ 35,106
2027	37,563
2028	40,192
2029	43,006
2030	46,016
2031 - 2035	160,028
Total	\$ 361,911

F. Compensated Absences

Restated beginning total unpaid employee compensated absences was \$10,838,064 and decreased by a net amount of \$742,838 during the year ended June 30, 2025. The ending compensated absences at June 30, 2025 amounted to \$10,095,226. This amount is included as part of long-term liabilities in the government-wide financial statements.

G. Net Pension Liability

The District's beginning net pension liability was \$99,967,638 and decreased by \$12,669,351 during the year ended June 30, 2025. The ending net pension liability at June 30, 2025 was \$87,298,287. See Note 10 for additional information regarding the net pension liability.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 9 – FUND BALANCES

Fund balances were composed of the following elements at June 30, 2025:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Non-spendable					
Revolving cash	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000
Stores inventory	-	-	-	75,285	75,285
Prepaid expenditures	921,455	-	-	-	921,455
Total non-spendable	946,455	-	-	75,285	1,021,740
Restricted					
Educational programs	7,083,835	-	-	-	7,083,835
Food service	-	-	-	8,004,188	8,004,188
Associated student body	-	-	-	133,606	133,606
Capital projects	-	26,265,036	-	12,010,318	38,275,354
Debt service	-	-	13,330,399	-	13,330,399
Total restricted	7,083,835	26,265,036	13,330,399	20,148,112	66,827,382
Committed					
Other commitments	3,672,219	-	-	-	3,672,219
Total committed	3,672,219	-	-	-	3,672,219
Assigned					
Other assignments	18,698,047	-	-	-	18,698,047
Total assigned	18,698,047	-	-	-	18,698,047
Unassigned	3,911,693	-	-	-	3,911,693
Total	\$ 34,312,249	\$ 26,265,036	\$ 13,330,399	\$ 20,223,397	\$ 94,131,081

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's Minimum Fund Balance 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.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS). The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflow of resources, and deferred inflow of resources for each of the above plans as follows:

	Net pension liability	Deferred outflows related to pensions	Deferred inflows related to pensions	Pension expense
CalSTRS Pension	\$ 49,572,825	\$ 14,696,485	\$ 9,137,626	\$ 2,844,409
CalPERS Pension	37,725,462	11,714,977	983,964	6,331,362
Total	\$ 87,298,287	\$ 26,411,462	\$ 10,121,590	\$ 9,175,771

A. California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate annual comprehensive financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, P.O. Box 15275, Sacramento, CA 95851-0275.

Benefits Provided

The CalSTRS defined benefit plan has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 60 members are eligible for normal retirement at age 60, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 with five years of credited service or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor, known as the career factor. The maximum benefit with the career factor is 2.4 percent of final compensation.
2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS. CalSTRS 2% at 62 members are eligible for normal retirement at age 62, with a minimum of five years of credited service. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. An early retirement option is available at age 55. The age factor for retirement after age 62 increases with each quarter year of age to 2.4 percent at age 65 or older.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Contributions

Active plan CalSTRS 2% at 60 and 2% at 62 members are required to contribute 10.25% and 10.205% of their salary for fiscal year 2025, respectively, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2025 was 19.10% of annual payroll. The contribution requirements of the plan members are established by state statute. Contributions to the plan from the District were \$8,872,151 for the year ended June 30, 2025.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$4,592,534 to CalSTRS.

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

At June 30, 2025, 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:

District's proportionate share of the net pension liability	\$ 49,572,825
State's proportionate share of the net pension liability associated with the District	<u>22,744,532</u>
Total	<u>\$ 72,317,357</u>

The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023 and rolling forward the total pension liability to June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2024, the District's proportion was 0.074 percent, which was a decrease of 0.006 percent from its proportion measured as of June 30, 2023.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

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

For the year ended June 30, 2025, the District recognized pension expense of \$2,844,409. In addition, the District recognized pension expense and revenue of \$(2,173,096) for support provided by the State. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 200,024
Differences between expected and actual experience	5,607,325	2,167,792
Changes in assumptions	217,001	3,385,652
Changes in proportion and differences between District contributions and proportionate share of contributions	8	3,384,158
District contributions subsequent to the measurement date	8,872,151	-
Total	<u>\$ 14,696,485</u>	<u>\$ 9,137,626</u>

The \$8,872,151 reported as 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 year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2026	\$ 1,166,195	\$ 6,022,357
2027	1,166,196	(1,689,311)
2028	1,057,695	1,973,704
2029	1,057,695	1,663,974
2030	1,055,479	600,780
2031	321,074	566,122
Total	<u>\$ 5,824,334</u>	<u>\$ 9,137,626</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Rate of Return*	7.10%
Wage Growth	3.50%

* Net of investment expenses, but gross of administrative expenses.

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on MP-2021 series tables adjusted to fit CalSTRS experience.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2017 through June 30, 2022.

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 January 2024 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class as of June 30, 2024, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return*
Public Equity	38%	5.25%
Real Estate	15%	4.05%
Private Equity	14%	6.75%
Fixed Income	14%	2.45%
Risk Mitigating Strategies	10%	2.25%
Inflation Sensitive	7%	3.65%
Cash/Liquidity	2%	0.05%
	<u>100%</u>	

*Real return is net of assumed 2.75% inflation.

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the Plan'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 the total pension liability.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

A. California State Teachers' Retirement System (CalSTRS) (continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net pension liability	\$ 88,173,834	\$ 49,572,825	\$ 17,339,380

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate annual comprehensive financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

The benefits for the defined benefit plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions

Active plan members who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA) specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 8.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2025 was 27.05% of annual payroll. Contributions to the plan from the District were \$6,002,365 for the year ended June 30, 2025.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS) (continued)

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

At June 30, 2025, the District reported a liability of \$37,725,462 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023 and rolling forward the total pension liability to June 30, 2024. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2024, the District's proportion was 0.106 percent, which was a decrease of 0.002 percent from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the District recognized pension expense of \$6,331,362. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ 1,465,416	\$ -
Differences between expected and actual experience	3,162,728	270,000
Changes in assumptions	833,860	-
Changes in proportion and differences between District contributions and proportionate share of contributions	250,608	713,964
District contributions subsequent to the measurement date	6,002,365	-
Total	<u>\$ 11,714,977</u>	<u>\$ 983,964</u>

The \$6,002,365 reported as 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 year ended June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2026	\$ 2,349,754	\$ 765,772
2027	3,457,538	218,192
2028	369,000	-
2029	(463,680)	-
Total	<u>\$ 5,712,612</u>	<u>\$ 983,964</u>

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

B. California Public Employees' Retirement System (CalPERS) (continued)

Actuarial Assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Discount Rate	6.90%
Salary Increases	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS' membership data for all funds. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 80% of scale MP 2020.

The actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from 2000 through 2019.

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. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 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 single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 10 – PENSION PLANS (continued)

B. California Public Employees’ Retirement System (CalPERS) (continued)

Actuarial Assumptions (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1 – 10*
Global Equity – cap-weighted	30.0%	4.54%
Global Equity – non-cap-weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed securities	5.0%	0.50%
Investment grade corporates	10.0%	1.56%
High yield	5.0%	2.27%
Emerging market debt	5.0%	2.48%
Private debt	5.0%	3.57%
Real assets	15.0%	3.21%
Leverage	(5.0)%	(0.59)%
	<u>100.0%</u>	

*An expected inflation of 2.30% used for this period. Figures are based on the 2021-22 CalPERS Asset Liability Management Study

Discount Rate

The discount rate used to measure the total pension liability was 6.90 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.90 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.90 percent) or 1-percentage-point higher (7.90 percent) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
District's proportionate share of the net pension liability	\$ 56,041,489	\$ 37,725,462	\$ 22,594,966

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 11 – RISK MANAGEMENT

Property and Liability

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

Workers' Compensation

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

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

Claims Liabilities

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

	Dental and Vision
Liability Balance, July 01, 2024	\$ 74,039
Claims & changes in estimates	1,267,206
Claims payments	(1,257,244)
Liability Balance, June 30, 2025	<u>\$ 84,001</u>

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. 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, 2025.

B. 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, 2025.

C. Construction Commitments

As of June 30, 2025, the District had commitments with respect to unfinished capital projects of \$12,889,860.

NOTE 13 – PARTICIPATION IN JOINT POWERS AUTHORITIES

The District participates in one joint ventures under joint powers authorities (JPAs), the East Valley Transportation (EVT) joint powers authority (JPA). The relationship between the District and the JPA is such that the JPA is not component units of the District for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in these financial statements. However, fund transactions between the JPA and the District are included in these statements. The audited financial statements are generally available from the respective entities.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2025

NOTE 14 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

A. Refunded Debt

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the District recognized deferred outflows or inflows of resources in the District-wide financial statements. The deferred outflow of resources pertains to the difference in the carrying value of the refunded debt and its reacquisition price (deferred amount on refunding). Previous financial reporting standards require this to be presented as part of the District's long-term debt. This deferred outflow of resources is recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the new debt, whichever is shorter. At June 30, 2025, the deferred amount on refunding was \$4,243,774.

B. Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District recognized deferred outflows of resources related to pensions and deferred inflows of resources related to pensions in the District-wide financial statements. Further information regarding the deferred outflows of resources and deferred inflows of resources can be found at Note 10. At June 30, 2025, total deferred outflows related to pensions was \$26,411,462 and total deferred inflows related to pensions was \$10,121,590.

C. Leases

Pursuant to GASB Statement No. 87, *Leases*, the District recognized deferred inflows of resources related to leases in the District-wide financial statements. Further information regarding the deferred inflows of resources can be found at Note 3. At June 30, 2025, total deferred inflows related to leases was \$4,069,978.

NOTE 15 – RESTATEMENT OF NET POSITION

The beginning net position of the Governmental Activities has been restated due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. GASB 101 establishes recognition and measurement guidance for liabilities related to compensated absences, requiring that the liability be recognized when leave is attributable to services already rendered and it is probable that the leave will be used or paid. This standard supersedes certain provisions of GASB Statement No. 16.

The cumulative effect of applying GASB 101 required a restatement of the beginning net position, as follows:

	Governmental Activities
Net Position - Beginning, as Previously Reported	\$ 20,791,779
Restatement	(10,388,306)
Net Position - Beginning, as Restated	<u>\$ 10,403,473</u>

REQUIRED SUPPLEMENTARY INFORMATION

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2025**

	Budgeted Amounts		Actual* (Budgetary Basis)	Variances - Final to Actual
	Original	Final		
REVENUES				
LCFF sources	\$ 80,256,081	\$ 82,015,983	\$ 82,079,831	\$ 63,848
Federal sources	4,976,592	5,293,430	4,890,094	(403,336)
Other state sources	21,527,613	22,516,193	22,322,127	(194,066)
Other local sources	6,268,170	6,992,303	9,806,084	2,813,781
Total Revenues	113,028,456	116,817,909	119,098,136	2,280,227
EXPENDITURES				
Certificated salaries	51,598,915	51,195,337	49,458,843	1,736,494
Classified salaries	20,926,107	20,790,277	20,441,711	348,566
Employee benefits	33,670,530	33,089,232	31,397,217	1,692,015
Books and supplies	4,553,711	5,227,048	2,794,230	2,432,818
Services and other operating expenditures	27,963,553	29,939,968	23,890,024	6,049,944
Capital outlay	1,061,902	991,902	1,042,836	(50,934)
Other outgo				
Excluding transfers of indirect costs	769,401	691,820	1,509,313	(817,493)
Transfers of indirect costs	(162,725)	(162,725)	(146,258)	(16,467)
Total Expenditures	140,381,394	141,762,859	130,387,916	11,374,943
Excess (Deficiency) of Revenues Over Expenditures	(27,352,938)	(24,944,950)	(11,289,780)	13,655,170
Other Financing Sources (Uses)				
Transfers in	-	-	1,817	1,817
Other sources	-	-	448,266	448,266
Transfers out	-	-	(1,817)	(1,817)
Net Financing Sources (Uses)	-	-	448,266	448,266
NET CHANGE IN FUND BALANCE	(27,352,938)	(24,944,950)	(10,841,514)	14,103,436
Fund Balance - Beginning	45,153,763	45,153,763	45,153,763	-
Fund Balance - Ending	\$ 17,800,825	\$ 20,208,813	\$ 34,312,249	\$ 14,103,436

* The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance due to reclassifying entries.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2025

	June 30, 2025	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
District's proportion of the net pension liability	0.074%	0.080%	0.073%	0.076%	0.076%	0.080%	0.082%	0.080%	0.087%	0.090%
District's proportionate share of the net pension liability	\$ 49,572,825	\$ 61,053,736	\$ 50,753,421	\$ 34,552,617	\$ 73,896,776	\$ 72,657,286	\$ 75,271,657	\$ 73,809,593	\$ 69,978,477	\$ 60,773,479
State's proportionate share of the net pension liability associated with the District	22,744,532	29,253,090	25,417,115	17,385,537	38,093,797	39,639,400	43,096,544	43,665,132	39,837,499	32,142,471
Total	\$ 72,317,357	\$ 90,306,826	\$ 76,170,536	\$ 51,938,154	\$ 111,990,573	\$ 112,296,686	\$ 118,368,201	\$ 117,474,725	\$ 109,815,976	\$ 92,915,950
District's covered payroll	\$ 50,775,429	\$ 46,507,576	\$ 46,814,456	\$ 43,233,912	\$ 41,183,152	\$ 42,480,049	\$ 44,466,854	\$ 43,205,461	\$ 43,450,466	\$ 41,816,982
District's proportionate share of the net pension liability as a percentage of its covered payroll	97.63%	131.28%	108.41%	79.92%	179.43%	171.04%	169.28%	170.83%	161.05%	145.33%
Plan fiduciary net position as a percentage of the total pension liability	83.55%	80.62%	81.20%	87.21%	71.82%	72.56%	70.99%	69.46%	70.04%	74.02%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
FOR THE YEAR ENDED JUNE 30, 2025

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
District's proportion of the net pension liability	0.106%	0.108%	0.118%	0.113%	0.111%	0.116%	0.118%	0.117%	0.114%	0.114%
District's proportionate share of the net pension liability	\$ 37,725,462	\$ 38,913,902	\$ 40,418,367	\$ 22,916,795	\$ 33,928,263	\$ 33,787,756	\$ 31,326,020	\$ 27,867,689	\$ 22,244,660	\$ 16,698,379
District's covered payroll	\$ 21,026,774	\$ 18,592,980	\$ 18,023,191	\$ 16,233,820	\$ 15,929,147	\$ 16,060,453	\$ 15,501,706	\$ 14,866,741	\$ 13,631,848	\$ 12,189,415
District's proportionate share of the net pension liability as a percentage of its covered payroll	179.42%	209.29%	224.26%	141.17%	212.99%	210.38%	202.08%	187.45%	163.18%	136.99%
Plan fiduciary net position as a percentage of the total pension liability	72.29%	69.96%	69.76%	80.97%	70.00%	70.05%	70.85%	71.87%	73.90%	79.43%

The amounts presented for each fiscal year were determined as of the year-end that occurred one year prior.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALSTRS
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 8,872,151	\$ 9,425,850	\$ 8,882,947	\$ 7,921,006	\$ 6,822,464	\$ 7,042,319	\$ 6,915,752	\$ 6,416,567	\$ 5,435,247	\$ 4,662,235
Contributions in relation to the contractually required contribution*	(8,872,151)	(9,425,850)	(8,882,947)	(7,921,006)	(6,822,464)	(7,042,319)	(6,915,752)	(6,416,567)	(5,435,247)	(4,662,235)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 47,935,606	\$ 50,775,429	\$ 46,507,576	\$ 46,814,456	\$ 43,233,912	\$ 41,183,152	\$ 47,926,209	\$ 44,466,854	\$ 43,205,461	\$ 43,450,466
Contributions as a percentage of covered payroll	18.51%	18.56%	19.10%	16.92%	15.78%	17.10%	14.43%	14.43%	12.58%	10.73%

*Amounts do not include on-behalf contributions

See accompanying notes to required supplementary information.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS - CALPERS
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 6,002,365	\$ 5,555,552	\$ 4,717,039	\$ 4,129,113	\$ 3,347,118	\$ 3,141,387	\$ 2,900,839	\$ 2,407,570	\$ 2,064,693	\$ 1,614,965
Contributions in relation to the contractually required contribution*	(6,002,365)	(5,555,552)	(4,717,039)	(4,129,113)	(3,347,118)	(3,141,387)	(2,900,839)	(2,407,570)	(2,064,693)	(1,614,965)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 22,392,095	\$ 21,026,774	\$ 18,592,980	\$ 18,023,191	\$ 16,233,820	\$ 15,929,147	\$ 16,060,453	\$ 15,501,706	\$ 14,866,741	\$ 13,631,848
Contributions as a percentage of covered payroll	26.81%	26.42%	25.37%	22.91%	20.62%	19.72%	18.06%	15.53%	13.89%	11.85%

*Amounts do not include on-behalf contributions

See accompanying notes to required supplementary information.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 1 – PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule is required by GASB Statement No. 34 as required supplementary information (RSI) for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule presents both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the District's budgetary basis. A separate column to report the variance between the final budget and actual amounts is also presented, although not required.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuations for CalSTRS or CalPERS.

Changes in Assumptions

There were no changes in economic assumptions since the previous valuations for CalSTRS or CalPERS.

Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered payroll.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2025, the District incurred an excess of expenditures over appropriations in individual major funds presented in the Budgetary Comparison Schedule by major object code as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Capital outlay	\$ 991,902	\$ 1,042,836	\$ 50,934
Other outgo			
Excluding transfers of indirect costs	\$ 691,820	\$ 1,509,313	\$ 817,493

SUPPLEMENTARY INFORMATION

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025**

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 2,050,768
Comprehensive Support and Improvement for LEAs	84.010	15438	174,382
Subtotal Title I, Part A			<u>2,225,150</u>
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	250,835
Title III			
Title III, English Learner Student Program	84.365	14346	470,483
Title III, Immigrant Education Program	84.365	15146	61,609
Subtotal Title III			<u>532,092</u>
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	221,843
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	1,501,910
IDEA Mental Health Average Daily Attendance (ADA) Allocation, Part B, Sec 611	84.027A	15197	71,507
IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	86,757
Subtotal Special Education Cluster			<u>1,660,174</u>
Total U. S. Department of Education			<u><u>4,890,094</u></u>
U. S. DEPARTMENT OF AGRICULTURE:			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
School Breakfast Program - Needy	10.553	13526	1,222,223
National School Lunch Program	10.555	13391	2,560,188
USDA Commodities	10.555	*	322,664
Subtotal Child Nutrition Cluster			<u>4,105,075</u>
<i>Passed through California Department of Social Services:</i>			
CACFP Claims - Centers and Family Day Care	10.558	13393	1,409,839
Total U. S. Department of Agriculture			<u>5,514,914</u>
Total Federal Expenditures			<u><u>\$ 10,405,008</u></u>

* - Pass-Through Entity Identifying Number not available or not applicable

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
FOR THE YEAR ENDED JUNE 30, 2025**

	Second Period Report	Annual Report
SCHOOL DISTRICT		
TK/K through Third		
Regular ADA	2,224.03	2,229.55
Extended Year Special Education	5.65	5.65
Special Education - Nonpublic Schools	2.34	2.66
Total TK/K through Third	2,232.02	2,237.86
Fourth through Sixth		
Regular ADA	1,875.66	1,872.74
Extended Year Special Education	1.79	1.79
Special Education - Nonpublic Schools	2.72	2.93
Extended Year Special Education - Nonpublic Schools	0.22	0.22
Total Fourth through Sixth	1,880.39	1,877.68
Seventh through Eighth		
Regular ADA	1,221.16	1,218.31
Extended Year Special Education	0.91	0.91
Special Education - Nonpublic Schools	5.38	5.12
Extended Year Special Education - Nonpublic Schools	0.90	0.90
Total Seventh through Eighth	1,228.35	1,225.24
TOTAL SCHOOL DISTRICT	5,340.76	5,340.78

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2025**

Grade Level	Minutes Requirement	Actual Instructional Minutes	Number of Days	Status
Kindergarten	36,000	38,160	180	Complied
Grade 1	50,400	51,750	180	Complied
Grade 2	50,400	51,750	180	Complied
Grade 3	50,400	51,750	180	Complied
Grade 4	54,000	54,110	180	Complied
Grade 5	54,000	54,110	180	Complied
Grade 6	54,000	54,110	180	Complied
Grade 7	54,000	54,335	180	Complied
Grade 8	54,000	54,335	180	Complied

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2025**

	2026 (Budget)	2025	2024	2023
General Fund - Budgetary Basis**				
Revenues And Other Financing Sources	\$ 117,964,780	\$ 119,548,219	\$ 135,457,852	\$ 137,365,921
Expenditures And Other Financing Uses	126,153,992	130,389,733	139,303,291	119,359,267
Net change in Fund Balance	\$ (8,189,212)	\$ (10,841,514)	\$ (3,845,439)	\$ 18,006,654
Ending Fund Balance	\$ 26,123,037	\$ 34,312,249	\$ 45,153,763	\$ 48,999,202
Available Reserves*	\$ 3,570,653	\$ 3,911,693	\$ 24,732,184	\$ 17,996,231
Available Reserves As A Percentage Of Outgo	2.83%	3.00%	17.75%	15.08%
Long-term Liabilities	\$ 307,163,901	\$ 314,541,345	\$ 297,667,524	\$ 264,597,843
Average Daily Attendance At P-2	5,207	5,341	5,422	5,484

The General Fund ending fund balance has decreased by \$14,686,953 over the past two years. The fiscal year 2025-26 budget projects a further decrease of \$8,189,212. For a District this size, the State recommends available reserves of at least 3% of General Fund expenditures, transfers out, and other uses (total outgo).

The District does not expect to meet the reserve requirements for 2025-26. The District is working on a plan to meet their reserves and incur a surplus in future years.

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2025-26 fiscal year. Total long-term obligations have increased by \$49,943,502 over the past two years.

Average daily attendance has decreased by 143 ADA over the past two years. A further decrease of 134 ADA is anticipated during the 2025-26 fiscal year.

*Available reserves consist of all unassigned fund balance within the General Fund.

**The actual amounts reported on this schedule do not agree with the amounts reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance due to reclassifying entries.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

There were no differences between the annual financial and budget report with audited financial statements.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2025**

Charter #	Charter School	Status	Included in Audit Report
1545	ACE Esperanza Middle School	Active	No
1608	KIPP Heritage Academy	Active	No
1192	Rocketship Mosaic Elementary Charter School	Active	No
1526	Rocketship Spark Academy	Active	No
0846	Voices College-Bound Language Academy	Active	No

See accompanying notes to supplementary information.

FRANKLIN-MCKINLEY SCHOOL DISTRICT
COMBINING BALANCE SHEET
JUNE 30, 2025

	Student Activity Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
ASSETS						
Cash and investments	\$ 133,604	\$ 6,936,568	\$ 10,408,174	\$ -	\$ 1,807,645	\$ 19,285,991
Accounts receivable	2	1,444,351	112,260	-	230,295	1,786,908
Due from other funds	-	12,305	-	-	-	12,305
Stores inventory	-	75,285	-	-	-	75,285
Total Assets	\$ 133,606	\$ 8,468,509	\$ 10,520,434	\$ -	\$ 2,037,940	\$ 21,160,489
LIABILITIES						
Accrued liabilities	\$ -	\$ 238,636	\$ 900	\$ -	\$ 545,419	\$ 784,955
Due to other funds	-	150,400	1,737	-	-	152,137
Total Liabilities	-	389,036	2,637	-	545,419	937,092
FUND BALANCES						
Non-spendable	-	75,285	-	-	-	75,285
Restricted	133,606	8,004,188	10,517,797	-	1,492,521	20,148,112
Total Fund Balances	133,606	8,079,473	10,517,797	-	1,492,521	20,223,397
Total Liabilities and Fund Balances	\$ 133,606	\$ 8,468,509	\$ 10,520,434	\$ -	\$ 2,037,940	\$ 21,160,489

See accompanying notes to supplementary information.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2025**

	Student Activity Fund	Cafeteria Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
REVENUES						
Federal sources	\$ -	\$ 5,514,914	\$ -	\$ -	\$ -	\$ 5,514,914
Other state sources	-	2,970,662	-	-	-	2,970,662
Other local sources	113,723	318,426	1,097,506	-	807,432	2,337,087
Total Revenues	<u>113,723</u>	<u>8,804,002</u>	<u>1,097,506</u>	<u>-</u>	<u>807,432</u>	<u>10,822,663</u>
EXPENDITURES						
Current						
Pupil services						
Food services	-	6,944,673	-	-	-	6,944,673
General administration						
All other general administration	-	146,258	-	-	-	146,258
Facilities acquisition and construction	-	-	30,538	1	562,729	593,268
Ancillary services	231,346	-	-	-	-	231,346
Total Expenditures	<u>231,346</u>	<u>7,090,931</u>	<u>30,538</u>	<u>1</u>	<u>562,729</u>	<u>7,915,545</u>
NET CHANGE IN FUND BALANCE	(117,623)	1,713,071	1,066,968	(1)	244,703	2,907,118
Fund Balance - Beginning	251,229	6,366,402	9,450,829	1	1,247,818	17,316,279
Fund Balance - Ending	<u>\$ 133,606</u>	<u>\$ 8,079,473</u>	<u>\$ 10,517,797</u>	<u>\$ -</u>	<u>\$ 1,492,521</u>	<u>\$ 20,223,397</u>

See accompanying notes to supplementary information.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2025**

NOTE 1 – PURPOSE OF SCHEDULES

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 de minimis indirect cost rate of up to 15 percent.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the article 8 (commencing with section 46200) of chapter 2 of part 26 of the *Education Code*.

Schedule of Financial Trends and Analysis

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

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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

Combining Statements – Non-Major Funds

These statements provide information on the District's non-major funds.

OTHER INFORMATION

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2025**

The Franklin-McKinley School District was established in 1948 and is comprised of an area of approximately 10 square miles located in Santa Clara County. There were no changes in the boundaries of the District during the current year. The District is operating 13 elementary schools, and three middle schools, one of which operates as a conversion charter school.

GOVERNING BOARD

Member	Office	Term Expires
George Sanchez	President	2028
Steven Sanchez	Vice President	2026
Hong Ha Hoang	Clerk	2028
Rudy Rodriguez	Member	2026
Marc Cooper	Member	2026

DISTRICT ADMINISTRATORS

Juan Cruz
Superintendent

Jason Vann
Assistant Superintendent, Business Services

Maria Bonilla Ledezma
Director, Fiscal Services

OTHER INDEPENDENT AUDITORS' REPORTS

**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**Independent Auditors' Report

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, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Franklin-McKinley School District's basic financial statements, and have issued our report thereon dated January 21, 2026.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Christy White, Inc.

San Diego, California
January 21, 2026

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**Independent Auditors' Report

Governing Board
Franklin-McKinley School District
San Jose, California

Report on Compliance for Each Major Federal Program***Opinion on Each Major Federal Program***

We have audited Franklin-McKinley School District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Franklin-McKinley School District's major federal programs for the year ended June 30, 2025. 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.

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, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit for Compliance

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

Report on Internal Control Over Compliance

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

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

Report on Internal Control Over Compliance (continued)

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

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

Christy White, Inc.

San Diego, California
January 21, 2026

**REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL
OVER COMPLIANCE FOR STATE PROGRAMS**Independent Auditors' Report

Governing Board
Franklin-McKinley School District
San Jose, California

Report on State Compliance***Opinion on State Compliance***

We have audited Franklin-McKinley School District's compliance with the requirements specified in the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to Franklin-McKinley School District's state program requirements as identified in the table in the Auditor's Responsibilities for the Audit of State Compliance section of our report for the year ended June 30, 2025.

In our opinion, Franklin-McKinley School District complied, in all material respects, with the laws and regulations of the applicable laws and regulations of the applicable state programs for the year ended June 30, 2025.

Basis for Opinion on State Compliance

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 *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of State Compliance

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the K-12 Audit Guide, we:

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

PROGRAM NAME	PROCEDURES PERFORMED
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	No
Continuation Education	Not Applicable
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	Not Applicable
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Not Applicable
Middle or Early College High Schools or Programs	Not Applicable
K-3 Grade Span Adjustment	Yes
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Yes

Auditor's Responsibilities for the Audit of State Compliance (continued)

PROGRAM NAME	PROCEDURES PERFORMED
School Districts, County Offices of Education, and Charter Schools	
Proposition 28 Arts and Music in Schools	Yes
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Not Applicable
Career Technical Education Incentive Grant	Not Applicable
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Yes
Kindergarten Continuance	Yes
 Charter Schools	
Attendance; for charter schools	Not Applicable
Mode of Instruction; for charter schools	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	Not Applicable
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

We did not perform testing for Independent Study because program ADA was not material.

The term "Not Applicable" is used above to mean either the District did not offer the program during the current fiscal year, the District did not participate in the program during the current fiscal year, or the program applies to a different type of local education agency.

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

Report on Internal Control Over Compliance

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

Report on Internal Control Over Compliance (continued)

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.

Christy White, Inc.

San Diego, California
January 21, 2026

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2025**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	<u>No</u>
Identification of major programs:	

<u>AL Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>84.027, 84.027A, 84.173</u>	<u>Special Education Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Any audit findings disclosed that are required to be reported in accordance with 2024-25 Guide for Annual Audits of California K-12 Local Education Agencies ?	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no financial statement findings for the year ended June 30, 2025.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

FIVE DIGIT CODE

50000

AB 3627 FINDING TYPE

Federal Compliance

There were no federal award findings or questioned costs for the year ended June 30, 2025.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

FIVE DIGIT CODE

10000
40000
42000
43000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Apprenticeship: Related and Supplemental Instruction
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no state award findings or questioned costs for the year ended June 30, 2025.

**FRANKLIN-MCKINLEY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025**

There were no findings or questioned costs for the year ended June 30, 2024.

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APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE

[\$[PAR AMOUNT]
FRANKLIN-MCKINLEY SCHOOL DISTRICT
(SANTA CLARA COUNTY, CALIFORNIA)
ELECTION OF 2026 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 2026 General Obligation Bonds, Series A (the “Bonds”). The Bonds are being issued pursuant to a paying agent agreement dated October 1, 2026 (the “Paying Agent Agreement”), between the School District and U.S. Bank Trust Company, 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 Isom Advisors, a Division of Urban Futures, Inc., 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 _____ 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 2025-26 Fiscal Year, due March 31, 2027 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;

(5) Summary financial information on revenues, expenditures, and fund balances for the School 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 School 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)(8) (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. The Dissemination Agent shall be designated in writing by the School District and shall file with the School District a written acceptance of such designation. The School District may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

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 2026 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 2017 through 2026.

POPULATION ESTIMATES City of San Jose, Santa Clara County and State of California 2017 through 2026

Year ⁽¹⁾	City of San Jose	Santa Clara County	State of California
2017	1,042,838	1,937,008	39,352,398
2018	1,045,854	1,943,579	39,519,535
2019	1,043,617	1,944,733	39,605,361
2020	1,012,452	1,936,259	39,538,223
2021	993,212	1,911,498	39,380,058
2022	969,590	1,891,556	39,159,480
2023	975,482	1,906,944	39,167,274
2024	978,276	1,915,448	39,446,835
2025	983,264	1,928,029	39,646,907
2026	980,434	1,932,468	39,592,978

⁽¹⁾ As of January 1 of each year.

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2020, with 2010 Census Benchmark, Sacramento California, May 7, 2021 and 2021-2026, with 2020 Census Benchmark, Sacramento California, May 1, 2026.

Employment

The following table summarizes civilian labor force, employment and unemployment statistics for the City, County, and State from 2020 through 2025.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT City of San Jose, Santa Clara County and State of California⁽¹⁾ 2020 through 2025

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate
2020	City of San Jose	532,400	487,800	44,600	8.4%
	Santa Clara County	1,000,500	927,800	72,800	7.3
	State of California	18,956,600	17,039,800	1,916,800	10.1
2021	City of San Jose	519,300	490,800	28,600	5.5%
	Santa Clara County	988,800	939,800	48,900	4.9
	State of California	19,013,800	17,619,300	1,394,500	7.3
2022	City of San Jose	525,500	510,100	15,500	2.9%
	Santa Clara County	1,010,600	982,500	28,100	2.8
	State of California	19,267,400	18,441,400	826,100	4.3
2023	City of San Jose	531,100	511,400	19,700	3.7%
	Santa Clara County	1,023,400	987,100	36,300	3.5
	State of California	19,514,600	18,593,600	921,000	4.7
2024	City of San Jose	531,900	508,900	23,000	4.3%
	Santa Clara County	1,025,100	982,700	42,500	4.1
	State of California	19,692,900	18,650,700	1,042,200	5.3
2025	City of San Jose	unavailable	unavailable	unavailable	unavailable
	Santa Clara County	1,037,100	993,100	44,100	4.2%
	State of California	19,823,800	18,738,500	1,085,300	5.5

⁽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 2024 Benchmark, dated March 28, 2025; State of California Employment Development Department, Labor Market Information Division, Report 400 C, Monthly Labor Force Data for Counties, Annual Average, March 2025 Benchmark, dated May 6, 2026.

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Industry

The following table summarizes the annual average industry employment in the County from 2021 through 2025.

INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES 2021 through 2025 Santa Clara County

	2021	2022	2023	2024	2025
Total Farm	3,000	3,000	2,900	3,000	3,000
Mining and Logging	200	200	200	200	200
Construction	50,100	52,100	52,300	51,600	50,900
Manufacturing	164,400	175,300	139,600	122,400	124,500
Wholesale Trade	27,900	28,500	28,500	27,900	27,600
Retail Trade	72,400	72,100	72,100	70,700	70,600
Transportation, Warehousing and Utilities	16,400	18,300	16,900	16,200	16,400
Information	107,000	105,900	97,600	94,700	96,900
Financial Activities	38,100	37,800	37,500	36,400	36,400
Professional and Business Services	241,200	248,900	277,300	281,500	275,800
Educational and Health Services	176,900	185,400	195,400	206,800	215,300
Leisure and Hospitality	77,400	94,900	100,200	101,400	101,200
Other Services	22,400	24,900	26,000	26,800	27,500
Government	90,100	92,500	94,600	96,800	98,200

Source: State of California Employment Development Department, Labor Market Information Division, Industry Employment & Labor Force by Annual Average, March 2025 Benchmark, dated July 17, 2026.

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Largest Employers

The following tables list the largest employers in the County and City in 2025.

LARGEST EMPLOYERS Santa Clara County 2025

Rank	Employer	Estimated # of Employees ⁽¹⁾	% of County Employment
1.	County of Santa Clara	23,423	2.39%
2.	Apple Inc.	10,936	1.11
3.	University of California, Santa Cruz	9,554	0.97
4.	Safeway Northern California Division	7,261	0.74
5.	City of San Jose	7,000	0.71
6.	Applied Materials	6,100	0.62
7.	San Jose State University	4,026	0.41
8.	Meta Platforms Inc.	3,966	0.40
9.	Deloitte	3,425	0.35
10.	Super Micro Computer Inc. dba Supermicro	3,073	0.31

⁽¹⁾ Silicon Valley Business Journal January 3-9, 2025 and FY 2025 Local Government Financial Statements

Source: County of Santa Clara, Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2025.

LARGEST EMPLOYERS City of San Jose 2025

Rank	Employer	Number of Employees	% of Total Employment
1.	County of Santa Clara	24,000	4.71%
2.	City of San Jose	8,053 ⁽¹⁾	1.58
3.	Cisco Systems, Inc.	7,500	1.47
4.	Kaiser Permanente	4,400	0.86
5.	San Jose State University	4,300	0.84
6.	Broadcom, Inc.	3,206	0.63
7.	Second Harvest of Silicon Valley	3,004	0.59
8.	Paypal Inc.	2,748	0.54
9.	Adobe Inc.	2,604	0.51
10.	Target Corporation	2,460	0.48
11.	Super Micro Computer, Inc.	2,422	0.48
12.	eBay Inc.	2,364	0.46
13.	Western Digital Corporation	2,221	0.44
14.	IBM Corporation	1,854	0.36
15.	Good Samaritan Hospital	1,850	0.36

⁽¹⁾Total employees (full-time and part-time) reported in this schedule are based on the City's payroll system and may not match Full-Time-Equivalents (FTEs) employees presented in the Proposed Budget Document.

Source: City of San Jose, Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2025.

Commercial Activity

The following tables summarize taxable sales in the County and City from 2021 through 2025.

TAXABLE SALES Santa Clara County 2021 through 2025

	<u>Retail Permits</u>	<u>Retail Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Taxable Transactions</u>
2021	28,365	\$31,393,299,191	51,015	\$52,994,694,164
2022	28,214	33,619,772,753	51,222	57,738,947,209
2023	27,227	33,369,250,097	49,698	57,098,298,396
2024	27,465	33,980,830,138	50,447	57,527,704,042
2025	27,263	34,921,503,302	50,604	57,675,301,717

Source: California Department of Tax and Fee Administration, Taxable Sales in California – Counties by Type of Business (Taxable Table 3), August 7, 2026.

TAXABLE SALES City of San Jose 2021 through 2025

	<u>Retail Permits</u>	<u>Retail Taxable Transactions</u>	<u>Total Permits</u>	<u>Total Taxable Transactions</u>
2021	13,901	\$15,716,996,464	23,747	\$20,503,287,928
2022	13,836	16,655,939,371	23,849	22,830,511,573
2023	13,297	16,591,978,895	23,103	22,828,834,178
2024	13,477	17,001,579,370	23,538	22,695,946,912
2025	13,383	16,995,122,821	23,589	22,250,665,887

Source: California Department of Tax and Fee Administration, Taxable Sales in California – Cities by Type of Business (Taxable Table 4), August 7, 2026.

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Personal Income

The following table summarizes per capita personal income in the County, State and United States from 2015 through 2024.

PER CAPITA PERSONAL INCOME Santa Clara County, State of California, and United States 2015 through 2024

<u>Year</u>	<u>Santa Clara County</u>	<u>State of California</u>	<u>United States</u>
2015	\$83,758	\$53,816	\$48,060
2016	90,091	55,862	48,974
2017	97,638	58,214	51,006
2018	106,551	60,984	53,311
2019	112,573	64,219	55,567
2020	122,266	70,100	59,151
2021	145,029	77,134	64,692
2022	141,894	77,196	66,298
2023	149,429	81,196	70,002
2024	157,620	86,232	73,204

Source: U.S. Department of Commerce, Bureau of Economic Analysis – CAINCI County personal income summary: personal income, population, per capita personal income, February 5, 2026 – new statistics for 2024; revised statistics for 2020-2023.

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APPENDIX E

SANTA CLARA COUNTY INVESTMENT POOL

This Appendix E provides a general description of the County Investment Policy and current portfolio holdings. The information set forth under this section relating to the Santa Clara County Treasury Pool has been obtained from the Santa Clara County Finance Agency and is believed to be reliable but is not guaranteed as to accuracy or completeness. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Santa Clara, Director of Finance, Finance Agency, County Government Center, East Wing, 70 West Hedding Street, San Jose, California, 95110, telephone (408) 299-2541.

The County Director of Finance manages the Santa Clara County Treasury Pool (the “County Pool”) in which certain funds of the County and certain funds of other participating entities are pooled and invested pending disbursement. General participants are those government agencies within the County, including the District, for which the County Director of Finance is statutorily designated as the custodian of such funds. The County Director of Finance is the *ex officio* treasurer of each of these participating entities, and such entities are legally required to deposit their cash receipts and revenues in the County Treasury. Under State law, withdrawals are allowed only to pay for expenses that have become due. The governing board of each school district and special district within the County may allow, by appropriate board resolution, certain withdrawals of non-operating funds for purposes of investing outside the County Treasury. Some districts have from time to time authorized the County Director of Finance to purchase specified investments for certain district funds to mature on predetermined future dates when cash would be required for disbursements. Other local agencies, such as special districts and cities for which the County Director of Finance is not the statutorily designated fund custodian, may participate in the County Pool. Such participation is subject to the consent of the County Director of Finance and must be in accordance with State law.

Funds held in the County Pool are invested by the County Director of Finance in accordance with State law and the County Investment Policy, which is prepared by the County Director of Finance and approved by the County Board. A copy of the County Investment Policy is attached hereto. The County Investment Policy sets forth the investment objectives, in order of priority, of safety of principal, liquidity and yield. In addition, the County Investment Policy describes the instruments eligible for inclusion in the County Pool and the limitations applicable to each type. A County Treasury Oversight Committee approves the County Investment Policy prepared by the County Director of Finance annually, reviews and monitors the quarterly investment reports prepared by the County Director of Finance, reviews depositories for County funds and broker/dealers and banks as approved by the County Director of Finance, and causes an annual audit to be conducted to determine the County Treasury’s compliance with all relevant investment statutes and ordinances and the County Investment Policy. The County Director of Finance neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds.

A summary description of the composition of the County Pool from the quarterly investment report as of June 30, 2026 is provided in the following table.

Securities by Type
Santa Clara County Treasury Pool

Investments	Book Value	Percent of Portfolio
Federal Agencies	\$2,371,744,833	20.78%
Corporate Bonds	1,757,776,411	15.40
Agency Mortgage-Backed Securities	2,096,391,750	18.37
Commercial Paper	636,520,699	5.58
Asset-Backed Securities	1,209,556,159	10.60
Asset-Backed Securities - Green Bonds	17,125,977	0.15
Municipal Securities	7,905,000	0.07
U.S. Treasuries	304,145,249	2.67
Negotiable CDs	1,065,000,000	9.33
LAIF	49,853,810	0.44
BNY Cash Reserve	--	0.00
Money Market Funds	1,394,507,227	12.22
Supranationals	501,099,765	4.39
Supranationals - Green Bonds	--	0.00
Total	\$11,411,626,879	100.00%

Source: Santa Clara County, Controller-Treasurer Department.

Neither the District nor the Underwriter has made an independent investigation of the investments in the County Pool and has made no assessment of the current County Investment Policy. The value of the various investments in the County Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Director of Finance, upon the approval by the County Board, may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the County Pool will not vary significantly from the values described therein.

4.8 TREASURY INVESTMENT POLICY

4.8.1 Statement of Intent

The purpose of this document is to set forth the County of Santa Clara's policy applicable to the investment of short-term surplus funds. In general, it is the policy of the County to invest public funds in a manner that will provide a competitive rate of return with maximum security while meeting the cash flow requirements of the County, school districts and special districts whose funds are held in the County Treasury, in accordance with all state laws and County ordinances governing the investment of public funds.

4.8.2 Scope

This investment policy applies to all financial assets held by the County. Those assets specifically included in this investment policy are accounted for in the County's Comprehensive Annual Financial Report and are included here as part of the County's Commingled Investment Pool.

4.8.3 Objectives

The following investment objectives shall be applied in the management of the County's funds.

- (A) The foremost objective of the County's investment program shall be to safeguard principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- (B) The secondary objective shall be to meet the liquidity needs of its participants. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- (C) The third objective shall be to attain a market rate of return (yield) throughout budgetary and economic cycles, taking into account the County's investment constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Risk Mitigation

Those factors that can lead to an unexpected financial loss can be broadly grouped into the following categories: credit risk, liquidity risk, interest rate risk and operational risk. Credit risk is the possibility that a bond issuer will default or that the change in the credit quality of counterparty will affect the value of a security. Liquidity risk for a portfolio that does not market value its holdings on a daily basis is the risk that sufficient cash or cash equivalents are not available and a security may have to be sold at a loss (based on its original cost) in order to meet a payment liability. Interest rate risk is the risk that the value of a fixed income security or portfolio will fall as a result of an increase in interest rates. Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud and human error.

It is part of this policy to pursue the listed actions below to reduce the risk of exposure to the County's investments.

Credit Risk

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Only purchasing securities that meet ratings standards specified in this policy.
- Conducting ongoing reviews as needed of all credit exposures within investment portfolios.
- Rating restrictions for all investments are denoted as requirements at time of purchase. If a security should incur a downgrade by either rating agency, placing the security on special surveillance to identify and monitor any continuing deterioration trends and, if warranted, selling the security.
- Reviewing the possible sale of a security whose credit quality is declining to minimize loss of principal.

Liquidity Risk

- To the extent possible, matching investment maturities with anticipated cash demands, also known as creating static liquidity. Alternatively, apply application software to analyze and validate that cash from investment activity is sufficient to cover all liabilities.
- Since all possible cash demands cannot be anticipated, maintaining portfolios largely of securities with active secondary or resale markets (dynamic liquidity).
- Making investments that could be appropriately held to maturity without compromising liquidity requirements.
- Prior to approving or disapproving a withdrawal request (a reduction of liquidity), the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool.

Interest Rate Risk

- Not investing in securities maturing more than five years from the settlement date unless the issuer is a Federal Agency of the United States or the credit is backed by the full faith and credit of the United States Government and the underlying remaining weighted average life of the debt security is less than five years at time of purchase.
- Limiting the weighted average maturity of the County's Commingled portfolio to three years or less.
- Limiting segregated investments to maturities of five years or less unless a longer term is specifically approved by the appropriate legislative body.

- Not investing in any funds in financial futures, option contracts, inverse floaters, range note or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- Ensuring that adequate resources are devoted to interest rate risk measurement.

Operational Risk

- Establishing a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.
- Having an audit review to examine the system of internal controls to assure that established policies including risk management procedures are being complied with.

4.8.4 Standards of Care

(A) **Prudence.** The County Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that prudent person acting in a like capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, the County Treasurer is authorized to acquire investments as authorized by law.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The County recognizes that no investment program is totally riskless and that the investment activities of the County are a matter of public record. Accordingly, the County recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that the portfolio is adequately diversified and that the sale of a security is in the best long-term interest of the County. Significant adverse credit changes or market price changes on County-owned securities shall be reported to the Board of Supervisors and the County Executive in a timely fashion.

(B) **Competitive Transactions.** Where practicable, each investment transaction shall be competitively transacted with brokers/dealers/banks approved by the County Treasurer.

(C) **Indemnification.** Investment officers acting in accordance with state laws, County ordinances, this policy and written procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

(D) **Ethics and Conflicts of Interest.** County employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and

management of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment personnel shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

County officers and employees involved with the investment process shall refrain from accepting gifts that would be reportable under the Fair Political Practices Commission (FPPC) regulations.

Members of the Treasury Oversight Committee shall not accept any honoraria, gifts or gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business that would be reportable under the FPPC regulations, or prohibited under any applicable law or policy.

4.8.5 Authorized Financial Dealers and Institutions

The County Treasurer shall establish an approved list of brokers, dealers, banks and direct issuers of commercial paper to provide investment services to the County. It shall be the policy of the County to conduct security transactions only with approved institutions and firms. To be eligible for authorization, firms that are commercial banks must be members of the FDIC, and broker/dealers:

- Preferably should be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank of New York, and
- Must maintain a secondary position in the type of investment instruments purchased by the County.

In addition, the firm must also qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule). Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of California.

The criteria for selecting security brokers and dealers from, to, or through whom the County Treasury may purchase or sell securities or other instruments, prohibits the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to any member of the governing board of any local agency that is a participant in the County Treasury or any candidate for those offices.

No public deposit shall be made except in a qualified public depository as established by state law. An annual analysis of the financial condition and professional institution/bank rating will be conducted by the County Treasurer and reported to the County Treasury Oversight Committee. Information indicating a material reduction in ratings standards or a material loss or prospective loss of capital must be shared with the Board of Supervisors, the County Executive, and the Oversight Committee in writing immediately.

To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

4.8.6 County Treasury Oversight Committee

A County Treasury Oversight Committee shall be established by the Board of Supervisors pursuant to Government Code Section 27130 et seq to advise the County Treasurer in the management and investment of the Santa Clara County Treasury. The Oversight Committee shall be comprised of six members representing the County, school districts and other local government agencies whose funds are deposited in the County’s commingled pool and other segregated investments. Members of the Oversight Committee will be nominated by the Treasurer and confirmed by the Board of Supervisors. The Committee is comprised of the following members:

- (1) County Director of Finance.
- (2) County Executive appointed by the Board of Supervisors.
- (3) Representative appointed by a majority of the presiding officers of the legislative bodies of the special districts in the County that are required or authorized to deposit funds in the County Treasury.
- (4) County Superintendent of Schools or his or her designee.
- (5) Representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County.
- (6) One member of the public that has expertise in and or an academic background in public finance.

Each member may designate an alternate to serve in the absence of the member. The alternate shall take the oath of office and file a conflict of interest report with the Clerk of the Board. The alternate shall exercise the vote of the member at meetings where the member is not present.

It is the responsibility of the County Treasury Oversight Committee to approve the investment policy prepared annually by the County Treasurer, to review and monitor the quarterly investment reports prepared by the County Treasurer, to review depositories for County funds and broker/dealers and banks as approved by the County Treasurer, and to cause an annual audit to be conducted to determine the County Treasury’s compliance with all relevant investment statutes and ordinances, and this investment policy. Any receipt of honoraria, gifts, and gratuities from advisors, brokers, and dealers, bankers or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee is limited to amounts that would not be reportable to the Fair Political Practices Commission. These limits may be in addition to the limits set by a committee member’s own agency or by state or local law or policy.

Nothing in this article shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

4.8.7 Eligible, Authorized and Suitable Investments

All investments shall conform with state law including but not limited to Government Code 53600 et seq and any further restrictions imposed by this policy (Authorized Investments). Where this section specifies a percentage limitation for a particular category of investment or specific issuer, that percentage is applicable only at the date of purchase. If subsequent to purchase, portfolio percentage constraints are above the maximum thresholds due to changes in value of the portfolio or changes due to revisions of the policy, then affected securities may be held to maturity in order to avoid principal losses. However, the County Treasurer may choose to rebalance the portfolio if percentage imbalances are deemed to impair portfolio diversification.

If after purchase securities are downgraded below the minimum required rating level the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade. Significant downgrades and the action to be taken will be disclosed in the Quarterly Investment Report.

U.S. Treasury and Government Agencies. There shall be no limit in the amount that may be invested in debt obligations that are backed by the full faith and credit of the United States government. This includes but is not limited to U.S. Treasury bills, notes or bonds. However, this does not include Medium-Term Corporate Notes or Deposit Notes, as described below.

There shall be no limit in the amount that may be invested in Federal Agencies of the United States or United States government sponsored-enterprise obligations, participations, and bond issuances including those issued by or fully guaranteed as to principal and interest by federal agencies or the United States government.

Repurchase Agreements. A repurchase agreement consists of two simultaneous transactions under the same agreement. One is the purchase of securities by an investor (County Treasury) from a financial institution. The other is the commitment by the financial institution to repurchase the securities at a specified price and on a date mutually agreed upon.

Repurchase agreements shall be entered into only with financial institutions which have executed a Master Repurchase Agreement with the County. Counterparty dealers must be recognized as primary dealers with the Market Reports Division of the Federal Reserve Bank of New York.

- The term of the repurchase agreement is limited to 92 days or less. The securities underlying the agreement may be obligations of the United States Government, its agencies, or agency mortgage backed securities. For repurchase agreements that exceed 15 days, the maturities on purchased securities may not exceed 5 years.
- The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the agreement. Purchased securities shall be held in the County's custodian bank as safekeeping agent either as a purchase versus delivery or a tri-

party arrangement, and the market value of the securities shall be marked-to-market on a daily basis.

Reverse Repurchase Agreements. A reverse repurchase agreement consists of two simultaneous transactions under the same agreement. One is the sale of securities by the County Treasury to a bank or dealer. The other is the commitment by the County Treasury to repurchase the securities at a specified price and on a date mutually agreed upon.

Reverse repurchase agreements may only be transacted with dealers and financial institutions which have executed a Master Repurchase Agreement with the County as approved by the Board of Supervisors, and which are Primary Dealers of the Federal Reserve Bank of New York. Reverse repurchase transactions must meet the following requirements:

- Sold securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value.³
- The term of the reverse repurchase agreement is not to exceed 92 days unless the agreement includes a written codicil that guarantees a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
- Funds obtained through a reverse repurchase agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
- Reverse repurchase agreements may only be used to effect a "matched" transaction whereby the proceeds of the reverse are reinvested for approximately the same time period as the term of the reverse repurchase agreement.
- Reverse repurchase agreements may not exceed \$90 million.
- Investments in reverse repurchase agreements in which Treasury sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the Board of Supervisors.

Reverse Repurchase Agreements will be used solely for the intent of accessing liquid funds on a temporary basis and will not be used as a means to amplify portfolio returns.

All other cost effective means of obtaining liquidity will be considered prior to exercising this option.

³ Base value of the County's Pool refers to the dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements or securities lending agreements.

In exception to the above, a trial transaction will be permitted on a periodic basis as emergency preparation to ensure that internal systems and staff members remain up-to-date on processing procedures. The amount of the trial transaction will not exceed pre-established limits set by the Treasurer.

Securities Lending. The mechanics behind a securities lending transaction consist of the County lending a security. The borrower, a financial institution, pledges collateral consisting of cash to secure the loan. Borrowers sometimes offer letters of credit as collateral. The lending agreement requires that the collateral must always exceed the market value of the security by 2%. Changes in the security's price during the term of the loan may require adjustments in the amount of collateral. The cash collateral obtained from the borrower is then invested in short-term assets for additional income. Also, the County is entitled to all coupon interest earned by the loaned security. At the end of the loan term, the transaction is unwound, the securities and collateral, which are held by a custodian bank, are returned to the original owners. The borrower is obliged to return the securities to the lender, either on demand from the County or at the end of any agreed term. Lending transactions must meet the following requirements:

- Loaned securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value.
- The term of the securities lending agreement is not to exceed 92 days.
- Funds obtained through a securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the securities lending agreement.
- The objective of the transaction is to produce positive earnings.

To qualify as a counter-party to the County in a securities lending transaction, the broker/dealer must be recognized as a Primary Dealer by the Federal Reserve Bank and the County's custodial bank must indemnify the County against losses related to the broker-dealer.

Non-Negotiable Time Deposits (CDs) That Are FDIC Insured and Collateralized Time Deposits. Time deposits with banks or savings and loan associations shall be subject to the limitations imposed by the Government Code, as amended, and additional constraints prepared by the County Treasurer that would limit amounts to be placed with institutions based on creditworthiness, size, market conditions and other investment considerations.

Negotiable Certificates of Deposit. The bank issuing a negotiable certificate of deposit with a maturity of one year or less, must reflect the following or higher ratings from at least two of these *nationally recognized statistical rating organizations* (NRSRO's): Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Certificates that exceed one year, must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-), and Fitch (AA-). Negotiable certificates of deposit shall not exceed 30% of the surplus funds of the portfolio. No more than 5% of the portfolio shall be in a single bank.

Bankers' Acceptances. Investments in eligible bankers' acceptances of United States or foreign banks shall not exceed 180 days maturity from the date of purchase. This debt must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Bankers' Acceptances shall not exceed 40% of surplus funds. No more than 5% of the portfolio shall be invested in a single commercial bank.

Commercial Paper. Investments in commercial paper shall not have a maturity that exceeds 270 days. Commercial paper must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). The issuer must meet the qualifications as indicated below pursuant to California Government Code:

If the commercial paper is short-term unsecured promissory notes issued by financial institutions or corporations, the issuer must:

- Be organized and operating in the United States as a general corporation;
- Have total assets in excess of five hundred million dollars (\$500,000,000); and
- If the issuer has senior debt outstanding, the senior debt must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3) Standard and Poor's (A-) and Fitch (A-).

If the commercial paper is asset backed, the issuer must:

- Be organized within the United States as a special purpose corporation, trust, or limited liability company; and
- Have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit or surety bonds and include a liquidity vehicle.

Commercial paper shall not exceed 40% of the local agency's funds. No more than 5% of the portfolio shall be invested in any single issuer of commercial paper.

Medium Term Corporate Notes or Deposit Notes. The purchase of corporate notes shall be limited to securities that reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-), but no single NRSRO ratings can be lower than A1 or equivalent. Medium term corporate notes or deposit notes (five years or less) shall be limited to 30% of surplus funds. No more than 5% of the portfolio shall be invested in any single corporation including those issuers whose debt is fully guaranteed as to principal and/or interest by federal agencies or the United States government.

Local Agency California Investment Fund (LAIF). Funds may be invested in LAIF, a State of California managed investment pool up to the maximum dollar amounts in conformance with the account balance limits authorized by the State Treasurer.

Municipal Obligations. The purchase of municipal obligations shall include the following:

(A) **Treasury notes or bonds of the state of California**, including other obligations such as registered state warrants, certificates of participation, lease revenue bonds and bonds payable

solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(B) **Bonds, notes, warrants, certificates of participation, lease revenue bonds or other evidences of indebtedness of any local agency within this state**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(C) **Registered treasury notes or bonds of any of the other 49 United States in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

For those instruments that are rated, long-term obligations must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-). Short term obligations must carry the following ratings or higher by at least one of these NRSRO's: Moody's (MIG-1), Standard and Poor's (SP-1), and Fitch (F-1). No more than 10% of surplus funds shall be in such obligations.

Money Market Funds. Companies issuing such money market funds must have assets under management in excess of \$500,000,000. The advisors must be registered with the Securities and Exchange Commission (SEC) and have at least five years' experience investing in such types of investments. The fund must reflect the highest rating by at least two of these NRSRO's: Moody's (Aaa), Standard and Poor's (AAA), and Fitch (AAA). No more than 20% of the Treasury's funds may be invested in money market funds and no more than 10% of the Treasury's funds may be invested in one money market fund. If the money market fund is tax-exempt then only one "AAA" rating by an NRSRO is required. The money market fund must also be "no-load", which is a fund that does not compensate sales intermediaries with a sales charge or commission that is deducted from the return of the fund.

Asset Backed Securities. Asset backed securities (ABS) are notes or bonds secured or collateralized by pools of loans such as installment loans or receivables.

- The asset backed security itself must reflect the following ratings or higher from at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-) and Fitch (AA-).
- Asset backed securities together may not exceed 20% of the Treasury's surplus money.

Agency Mortgage-Backed Securities. Mortgage-backed securities (MBS) are-collateralized by pools of conforming mortgage loans or multi-family mortgage loans insured by FHLMC or FNMA and or guaranteed by FHA (GNMA).

Supranational Debt Obligations. United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development of the World Bank (IBRD) or the Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments must be rated "AAA" by at least two of the

following, NRSRO's, Moody's, Standard and Poor's or Fitch and shall not exceed ten percent, in aggregate, of the Treasury's surplus funds.

General Parameters

Socially and Environmentally Responsible Investments

Whenever possible, in addition to and subordinate to the objectives set forth in section 4.8.3 herein, it is the County's policy to create a positive impact by investing in socially and environmentally responsible corporations and agencies as defined by priorities set by the Board of Supervisors.

Ineligible Investments

Ineligible investments include common stock, inverse floaters, range notes, mortgage-derived interest only strips and any security that could result in zero interest accrual if held to maturity or any security that does not pay (cash or earn accrued) interest in one year or at least semi-annually in subsequent years and any investment not authorized by this policy unless otherwise allowed by law and approved by the Board of Supervisors.

Combined Issuer/Institutional Limits.

No more than 5% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, Commercial paper, Negotiable Certificates of Deposit, and Corporate Notes.

Swaps

Investments will be reviewed for the possibility of a swap to enhance yield when both securities have a similar duration so as not to affect the cash flow needs of the program. Swaps should have a minimum of five basis points before being transacted.

4.8.8 Maximum Maturity

The County Investment portfolio shall be structured to provide that sufficient funds from investments are available to meet the anticipated cash needs of the depositors in the County's commingled investment pool. The choice of investment instruments and maturities shall be based on an analysis of depositors cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The average weighted maturity of the portfolio will not exceed three years and investments will have a maturity of no more than five years from the settlement date unless specifically approved by the Board of Supervisors or the provisions set forth elsewhere in this policy.

4.8.9 Segregated Investments (excludes Commingled Funds)

Segregated investments of instruments permitted in Government Code Section 53601 can be made upon proper authorization where cash flow or other factors warrant segregation from the commingled pool. Examples that may justify such segregation are bond or note proceeds, Retiree

Health funds or Workers Compensation funds where longer term or matching term investments are warranted.

For segregated investment funds, no investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements.

Segregated investments shall be limited to five years maturity unless a longer term is specifically approved by the appropriate legislative body.

Government Code Sections 53620 and 53622 grant the County authority to invest the assets of the Santa Clara County Retiree Health Trust in any form or type of investment deemed prudent by the governing body. Accordingly, the County Board of Supervisors has determined that up to 67 percent of the Trust's assets, excluding near-term liability pay-outs, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

In accordance with the prudent person standard in Government Code Sections 53620 through 53622, the assets of the Santa Clara County Retiree Health Trust may be invested in bonds that have a final maturity of 30 years or less from purchase date, and in bonds that reflect the following ratings or higher from at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-).

4.8.10 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the County by a custodian designated by the County Treasurer and evidenced by trade confirmations and safekeeping holdings reports.

The County Treasurer will approve certain financial institutions on an annual basis to provide safekeeping and custodial services for the County. Custodian banks shall be selected on the basis of their ability to provide service to the County's account and the competitive pricing of their safekeeping related services. All securities purchased by the County under this section shall be properly designated as an asset of the County and held in safekeeping by a custodial bank chartered by the United States Government or the State of California. The County will execute custodial agreement(s) with its bank(s). Such agreements will outline the responsibilities of each party for the notification of security purchases and sales, address wire transfers as well as safekeeping and transaction costs, and provide details on procedures in case of wire failures or other unforeseen mishaps along with the liability of each party.

To be eligible for designation as the County's safekeeping and custodian agent, a financial institution shall meet the following criteria:

- Have a Moody's rating of P-1 or Standard and Poor's rating of A-1 for the most recent reporting quarter before the time of selection.
- Qualify as a depository of public funds in the State of California as defined in Government Code Section 53638.

The County Treasurer shall require each approved custodial bank to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the County within forty-five days after the end of each calendar quarter.

It is the intent of the County to mitigate custodial credit risk by insuring that all securities are appropriately held.

Securities typically clear and settle as electronic book entries through the following clearinghouses: (1) the Depository Trust Corp. (DTC), a member of the Federal Reserve Bank; or (2) the Fed Book-Entry System, owned by the Federal Reserve. Governments generally do not have their own account in the Fed Book-Entry System or at DTC, but have access to those systems through large financial institutions who are members and participants. The County's securities within the clearing system are held under the Custodial Bank's name. The Custodial Bank's internal records identify the County as the underlying beneficial owner of securities.

Infrequently, physical certificates are used to reflect ownership of a security. When physical securities are received by the Custodial Bank, they are sent to a transfer agent to be registered into the Custodial Bank's nominee name. It is kept in the bank's vault until redeemed or sold. The Custodial Bank records identify the County as the underlying beneficial owner and include the securities on the County's Safekeeping report.

4.8.11 Internal Controls and Accounting

The County shall establish a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.

The County maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

The County shall establish a process for an annual review by either the County's internal or external auditor. This review will examine the system of internal controls to assure that the established policies and procedures are being complied with and many [sic] result in recommendations to change operating procedures to improve internal control.

4.8.12 Reporting

(A) Methods.

(i) The County Treasurer shall prepare an investment report quarterly, including a management summary that provides a clear status of the current investment portfolio, quarterly transactions, investment philosophy and market actions and trends. The management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, the County Executive, the County Treasury Oversight

Committee, Internal Auditor, and local agencies with funds on deposit in the County pool. The report will include the following:

- A listing of individual securities by type of investment and maturity held at the end of the reporting period.
- A composite of transactions purchased during the reporting period by type of security.
- Unrealized gains or losses resulting from appreciation or depreciation of securities held in the portfolio, by listing the cost of market value of securities.
- Average weighted yield to maturity of the portfolio and benchmark comparisons.
- Weighted average maturity of the portfolio.
- A summary of purchases during the reporting period by broker/dealers or banks showing the purchase date, issuing agency, amount purchased, cost and purchase date.
- A statement denoting the ability of the County to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available.

(ii) The County Treasurer shall prepare a monthly report with a brief summary of the investment report and a listing of the transactions conducted during the month. The report will be provided to the Board of Supervisors, Treasury Oversight Committee and the local agencies with funds on deposit in the County Pool.

Material deviations from projected budgetary investment results shall be reported no less frequently than quarterly to the Board of Supervisors and the County Executive.

(B) Performance Standards.

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account the County's investment risk constraints and cash flow needs.

The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the State Treasurer's Local Agency Investment Fund (LAIF). It should be recognized, however, that since the investment parameters of LAIF are broader than the County's investment policies, the returns realized by the County cannot necessarily be expected to exceed the returns realized by LAIF on a regular basis.

(C) The County utilizes the following methods to pay for banking services and County administration of the investment function:

General Banking Services. General banking services such as safekeeping, items deposited, statements, account maintenance, etc., may be paid to the bank through direct payment or a combination of direct payment and compensating balance.

Investment and Banking Administration Costs. The County recovers staffing and other costs relating to the County's administration services for banking and investment functions provided to the County Treasury. The administrative costs are allocated against the earnings of the County pool prior to apportionment of earnings.

Earnings Apportionment. Earnings of the County pool are apportioned quarterly to all participants of the pool based on the average daily balance of each fund during the quarter.

Realized capital gains (the gain from securities sold at a higher price compared to cost) are added to quarterly earnings. Realized capital losses (the loss from securities sold at a lower price compared to cost) reduce quarterly earnings. To the extent that a realized capital loss exceeds the quarterly aggregate earnings of the Pool, the loss will be shared across all funds. The size of the write-down for any individual fund balance will be based on the average daily balance of each fund during the quarter in which the loss occurred.

Any apportioned earnings may not be available for withdrawal until all monies that have been earned (i.e., accrued) have actually been received by the County Treasurer.

4.8.13 Investment Policy Adoption

Pursuant to Government Code Section 27133 the County Treasurer annually prepares an investment policy that is reviewed, monitored and approved by the County Treasury Oversight Committee. Any changes must be approved by the Board of Supervisors. Copies of the approved investment policy shall be circulated annually to local agencies with funds on deposit in the County pool.

4.8.14 Voluntary Participants

The County provides the opportunity for local agencies to deposit excess funds within the County's Commingled Pool pursuant to Government Code Section 53684. In order to participate, voluntary participants must sign the County's Disclosure and Agreement for Voluntary Deposits which outlines the terms and conditions of participation, including constraints on deposits and withdrawals from the pool. Voluntary participants must also submit a resolution duly adopted by its governing board authorizing the deposit of funds into the Investment Pool.

It is the County's policy to not allow access to the pool unless the voluntary participant agrees to a long-term relationship utilizing the pool and County Treasury for its primary banking needs. The County does not wish to enter into relationships where an entity is placing funds because yields for a time may be higher than what is available at other organizations, because such activity can have an adverse and unfair impact on the other participants. Upon approval of the Treasurer, accommodations may be made to utilize the County resources to make specific investments or manage segregated funds for a voluntary participant at an agreed cost.

4.8.14.1 Temporary Loans to Pool Participants

Various public entities maintain funds on deposit with the County Treasury. From time to time, these public entities experience cash flow problems. Allowing these entities to temporarily borrow from the commingled investment pool is an alternative way to address their short-term cash flow problems. In order to ensure that these temporary loans comply with all legal requirements and investment pool objectives, no such transfers shall be made unless all of the following requirements are met:

- Because the commingled investment pool consists of deposits from both restricted and unrestricted sources, all transfers shall comply with all requirements of Government Code Sections 53601, 53840, 53841 and 53842, including the requirements that they be legally characterized as loans and formalized with “evidences of indebtedness,” and meet maturity and security criteria.
- All transfers shall comply with Article XVI, Section 6 of the California Constitution, including the limitations on borrowing amounts and loan periods.
- No transfers shall be made during any fiscal year unless the Board of Supervisors has adopted a resolution authorizing transfers for that fiscal year. (Cal. Constitution Article XVI, Section 6; Government Code Section 25252.)
- Any inter-fund transfers between school district and community college accounts shall be formally approved by the district’s governing board and shall comply with all other requirements of Education Code Sections 42603, 42620 and 85220, including requirements regarding repayment, sufficient income, and maximum transfer amounts.
- No transfer may occur until the fund needing the transfer meets the revenue sufficiency test, consistent with state law and County investment pool investment-risk constraints, established by the Director of Finance to ensure repayment.
- Direct borrowing from the pool should be a last resort funding alternative. Pool participants will be encouraged to use all available internal sources for cash flow needs through interfund borrowing between the participant’s various funds.

The Director of Finance shall do all of the following:

- Proactively monitor fund balances.
- Establish early warning triggers to identify those funds most likely to incur an overdraft and require a transfer.
- Establish a revenue sufficiency test for the purpose of assessing repayment ability.
- Place tax apportionments assigned to an overdrawn fund in a lock box sequestered for credit to the investment pool.
- Establish and monitor investment pool exposure limits.

- Monitor funds to ensure that loans meet dry period (last Monday in April through June 30 of the fiscal year) financing restrictions.
- Restrict certain individual funds (e.g., bond reserve funds) from use as a borrowing source in inter-fund borrowing across funds held by pool participant.
- Establish a hierarchy of associated funds owned by each pool participant to be used as alternative funding sources in the event any of the participant's funds needs a loan.
- Implement accounting procedures that either manually or automatically transfer funds from one fund to another based on preset rules.
- Report within the Quarterly Investment listing all loans extended by the investment pool to participants.

The County's external financial auditor shall regularly review all of the practices and procedures in this Section to ensure compliance with all legal requirements.

4.8.15 Withdrawal of Funds by Voluntary Participants

Public entities that are voluntary participants in the County pool who wish to make withdrawals for the purpose of investing outside of the County pool may request such withdrawals in accordance with the County Investment Management Agreement.

The County Treasurer will assess the proposed withdrawal on the stability and predictability of the investments in the County pool. Prior to approving or disapproving a withdrawal request, the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool. Funds are withdrawn based on the market value.

4.8.16 Warranties

All depositors acknowledge that funds deposited in the Investment Pool are subject to market/investment risk, and that the County Treasurer makes no warranties regarding Investment Pool performance, including but not limited to preservation of capital or rate of return earned on funds deposited in the Investment Pool. Depositors knowingly accept these risks and waive any claims or causes of action against the County Treasurer, the County, and any employee, official or agent of the County for loss, damage or any other injury related to the Depositors' funds in the Investment Pool, with the exception of loss, damage or injury caused solely by the County Treasurer's material failure to comply with the County Investment Policy and all applicable laws and regulations.

Revised 2023.

