

**ALUM ROCK UNION  
ELEMENTARY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2016

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2016

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
For the Year Ended June 30, 2016  
(Continued)

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Alum Rock Union Elementary School District  
San Jose, California

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alum Rock Union Elementary School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Alum Rock Union Elementary School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Alum Rock Union Elementary School District, as of June 30, 2016, 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.

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(Continued)

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 to 15 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of the District's Contributions on pages 51 to 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alum Rock Union Elementary School District's basic financial statements. The accompanying schedule of expenditure 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*, and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, 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 schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of Alum Rock Union Elementary 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 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 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 Alum Rock Union Elementary School District's internal control over financial reporting and compliance.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Sacramento, California  
November 28, 2016

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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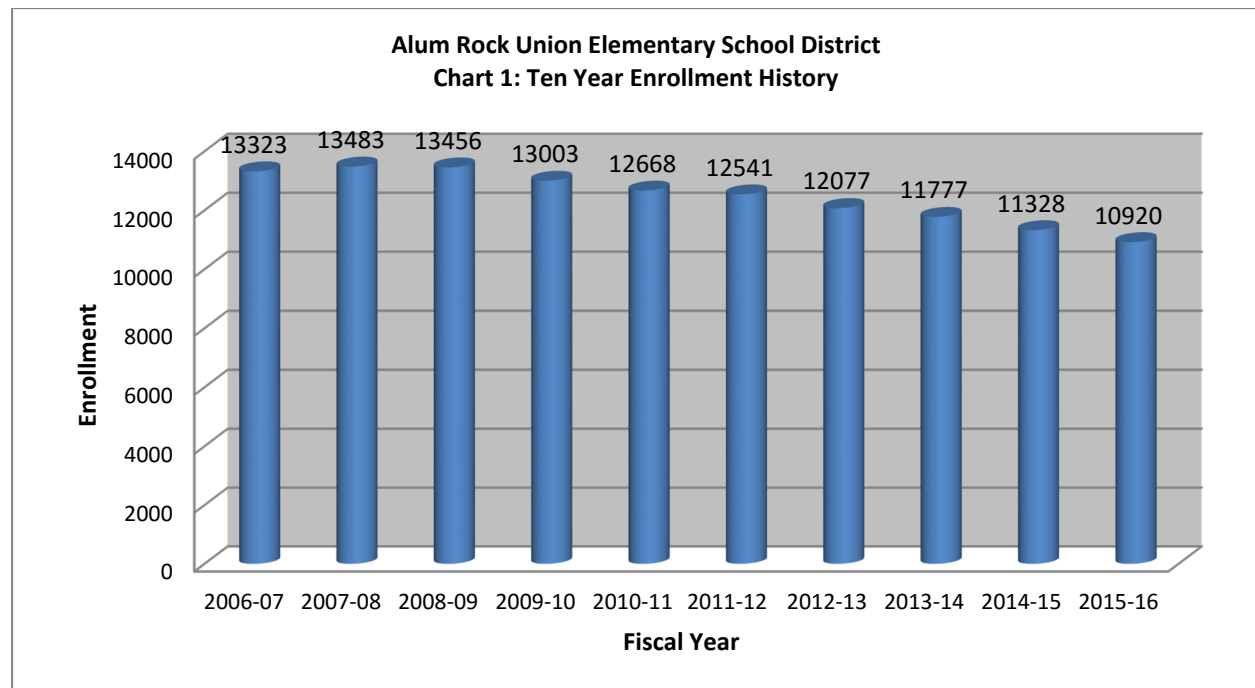
This Management's Discussion and Analysis section of Alum Rock Union Elementary School District's 2015-16 annual financial report presents management's view of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### DISTRICT PROFILE

The District was organized in 1930 under the laws of the State of California. There are seventeen elementary schools and eight middle schools (total twenty-five schools including four Small Schools and a dependent Charter School) serving a student population of under eleven thousand students. The District occupies eleven square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

The financials are a reflection of how the Board of Trustees prioritizes the use of the dollars that are received for education. As policy makers, the Trustees have translated educational dollars to educational programs that will serve to enhance the learning opportunities for the children of the Alum Rock Union Elementary School District.

The District has been experiencing declining enrollment since prior to 2000. This decline has resulted in a loss of ADA (average daily attendance), which translates into a loss in revenue. Since approximately 80% of district's revenue is based on ADA and Local Control Funding Formula (LCFF), it is important that the District monitor its ADA. Chart 1 below provides the District's ten year ADA comparison.



# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### FINANCIAL HIGHLIGHTS

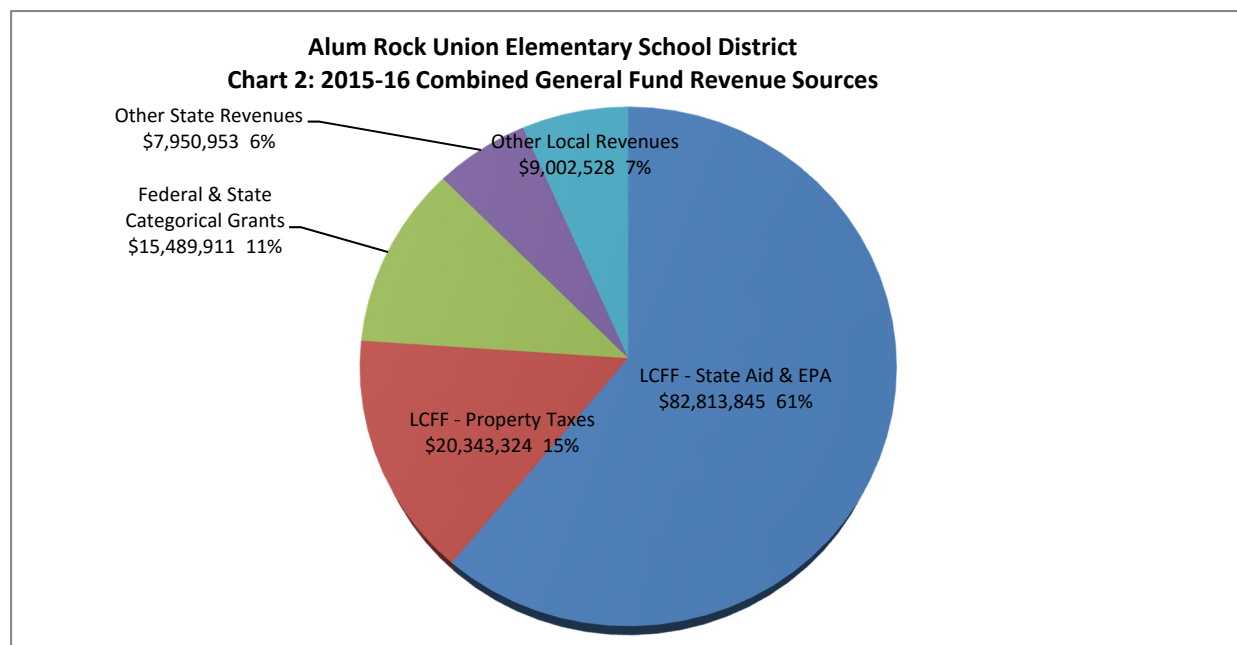
The financial highlights section will focus on the “governmental funds” presentation of the Audited Financial Statements and, more specifically, on the general fund of the District. The District-wide Financial Statements provide financial information on the District as a whole, but we believe the critical financial aspects of the District’s operations are best presented in the governmental funds section.

### School District Local Control Funding Formula (LCFF)

The 2013-14 State’s adopted budget entails the most dramatic change in school financing since the implementation of Senate Bill (SB) 90 and the implementation of revenue limits in 1972. After considerable negotiations between the Legislature and Governor Brown, state policy makers enacted the Local Control Funding Formula (LCFF) to replace revenue limits and most categorical programs, commencing 2013-14.

LCFF is designed to improve student outcome giving local flexibility to meet student needs, aid in transparency, provide equity through student focus formula, and performance through aligned program and budget plans. LCFF creates the opportunity to implement a performance based budget instead of a compliance based budget. It is estimated that it will take 8 years to fully implement starting in fiscal year 2013-14. The plan is to reach our *Targeted Entitlement* at the end of 8 years.

The District receives the majority of its funding from LCFF. The District’s LCFF is a direct function of the District’s ADA. The actual funding of the LCFF comes from a combination of local property taxes, Education Protection Account (EPA) and state aid. Chart 2 provides a breakout of the sources of revenue for the District.





# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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Table 1  
General Fund Revenues and Expenditures  
(in thousands of dollars except for ADA amount)

	June 30, 2016	2015	Increases (Decreases)
Beginning Fund Balance	\$ 17,841	\$ 15,945	\$ 1,896
Total Revenues and Other Sources	135,601	119,183	16,418
Total Expenditures and Other Uses	(124,177)	(117,287)	6,890
Ending Fund Balance	<u>\$ 29,113</u>	<u>\$ 17,841</u>	<u>\$ 11,424</u>
Ending Available Reserves (Unappropriated)	\$ 17,657	\$ 11,151	\$ 6,506
Funded LCFF ADA - ARUESD	10,509	10,994	(485)
Funded LCFF ADA - Aptitude	424	403	21

### Revenues and Expenditures

Total revenues increased by approximately \$16.4 million. This increase was attributable to changes in funding formula (LCFF), one time restricted monies such as Educator Effectiveness and one time discretionary/mandated reimbursement fund.

Although funded ADA decreased by net 464 ADA, changes under the new funding formula, LCFF resulted in a favorable \$10.1 million in revenues.

During fiscal year 2015-16, the District settled with all bargaining units for a 3% salary increase retro to 7/1/2015. This resulted in an increase in expenditures along with standard operational changes.

### Available Reserves

It is important to note that the Unrestricted General Fund accounts for all of the District's instructional and operational activities, plus contribute to the restricted programs when costs of the mandated activities exceed resources. In addition, the required 3% reserve for economic uncertainties comes from unrestricted fund balance.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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The unrestricted portion of our general fund balance is referred to as our available reserves. The unrestricted balance on June 30, 2016 was \$17,657,792 which includes the required 3% economic uncertainties reserve of \$3,719,307 and \$1,500,000 in assigned.

### General Fund Budgetary Highlights

Our adopted budget projected an ending balance, unrestricted and restricted of \$11,001,762 and \$2,118,659, respectively. Our actual ending balance at year-end was in total \$29,113,425, of which \$23,897,099 unrestricted and \$5,216,326 restricted— a positive variance overall from our adopted budget projection. The favorable expenditure variance results from the following: various vacant positions unable to fill, unexpended facility improvement budget and unexpended restricted program funds reflected in the legally restricted ending balance not accounted for in the final budget and from outside services not performed by year end.

### CAPITAL ASSET & DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2016, the District had \$3 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation. See Table 2 below. This amount represents a net increase (including additions, deductions and depreciation) of \$985,838 from 2014-15. Our school sites have low values for today's market because the District acquired the land many decades ago. School buildings and site improvements are valued at their historical construction cost less accumulated depreciation.

Table 2

	2016	2015
<i>Land</i>	\$2,408,678	\$2,408,678
<i>Construction in progress</i>	2,976,896	2,436,579
<i>Building and improvements</i>	83,931,822	81,566,873
<i>Equipment</i>	5,032,571	5,570,318
<i>Improvement of sites</i>	14,480,856	15,862,537
	<b>\$108,830,823</b>	<b>\$107,844,985</b>

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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### Long Term Liabilities

At year-end, the District had \$145,821,243 of long-term debt (General Obligation Bonds and Certificates of Participation) outstanding. The long-term obligations of the District include the following:

The District's general obligation bond received a rating of "Aa3". State limits the amount of general obligation debt (bonding capacity) that districts can issue to 1.25% of the assessed value of all taxable property within the district's boundaries for a union school district, and 2.50% for a unified school district.

Other obligations include compensated absences payable and retiree incentive liabilities. The District has no OPEB obligations. We present more detailed information regarding our long-term liabilities in Note 6 of the financial statements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- *Governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- *Proprietary funds* statements account for any activity for which services are provided to other funds on a cost-reimbursement basis.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the district-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget, both the adopted and final version, with year-end actuals.

### 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 District's assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources – are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position can be an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District, one needs to consider additional factors such as the economy of the State, the State's fiscal health, the local economy and the condition of the property and equipment of the District.

The following table summarizes the District's net position as of June 30, 2016 and 2015.

Net Position		
	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 98,509,867	\$ 74,758,986
Capital Assets	108,830,823	107,844,985
Total Assets	<u>207,340,690</u>	<u>182,603,971</u>
Deferred Outflows of Resources	<u>14,179,518</u>	<u>7,208,363</u>
Long-Term Liabilities Outstanding	239,163,767	211,360,962
Other Liabilities	21,942,051	17,606,321
Total Liabilities	<u>261,105,818</u>	<u>228,967,283</u>
Deferred Inflows of Resources	<u>9,811,000</u>	<u>23,659,750</u>
Net Position:		
Net Investment in Capital Assets	3,490,607	3,102,403
Restricted	29,875,317	22,820,741
Unrestricted	(82,762,534)	(88,727,843)
Total Net Position	<u>\$ (49,396,610)</u>	<u>\$ (62,814,699)</u>

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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The following table shows the change in net position as of June 30, 2016 and 2015:

	Change in Net Position	
	<u>2016</u>	<u>2015</u>
<i>Revenues</i>		
Program Revenues:		
Charges for Services	\$ 642,995	\$ 565,222
Operating Grants	27,584,281	26,029,010
General Revenues:		
Property Taxes	38,516,487	36,768,798
Federal and State Aid	85,438,381	71,576,998
Other	1,190,486	2,413,271
Total Revenues	153,372,630	137,353,299
<i>Program Expenses</i>		
Instruction	90,347,872	88,905,655
Instruction Related Services	10,390,277	9,582,666
Pupil Services	15,515,606	15,270,580
Community Services	2,319	35,489
General Administration	9,214,165	8,173,751
Plant Services	10,655,786	10,514,204
Interest	3,553,694	4,524,284
Other	274,822	372,314
Total Expenses	139,954,541	137,378,943
Change in Net Position	13,418,089	(25,644)
Cumulative effect of GASB 68 implementation	-	(100,073,507)
Net Position – Beginning	(62,814,699)	37,284,452
Net Position – Ending	<u><u>\$(53,084,210)</u></u>	<u><u>\$(62,814,699)</u></u>

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

Some funds are required by State law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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The District has three kinds of funds:

*Governmental funds.* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets which can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide financial statements that explain the relationships (or differences) between them.

*Proprietary funds.* When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Change in Net Position.

We use internal service funds to report activities that provide supplies and services for the District's other program and activities, such as the District's Self-Insurance Fund. The internal service fund is reported with government activities in the government-wide financial statements.

*Fiduciary funds.* The District is the trustee, or fiduciary, for assets that belong to others, such as the student body funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Change in Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

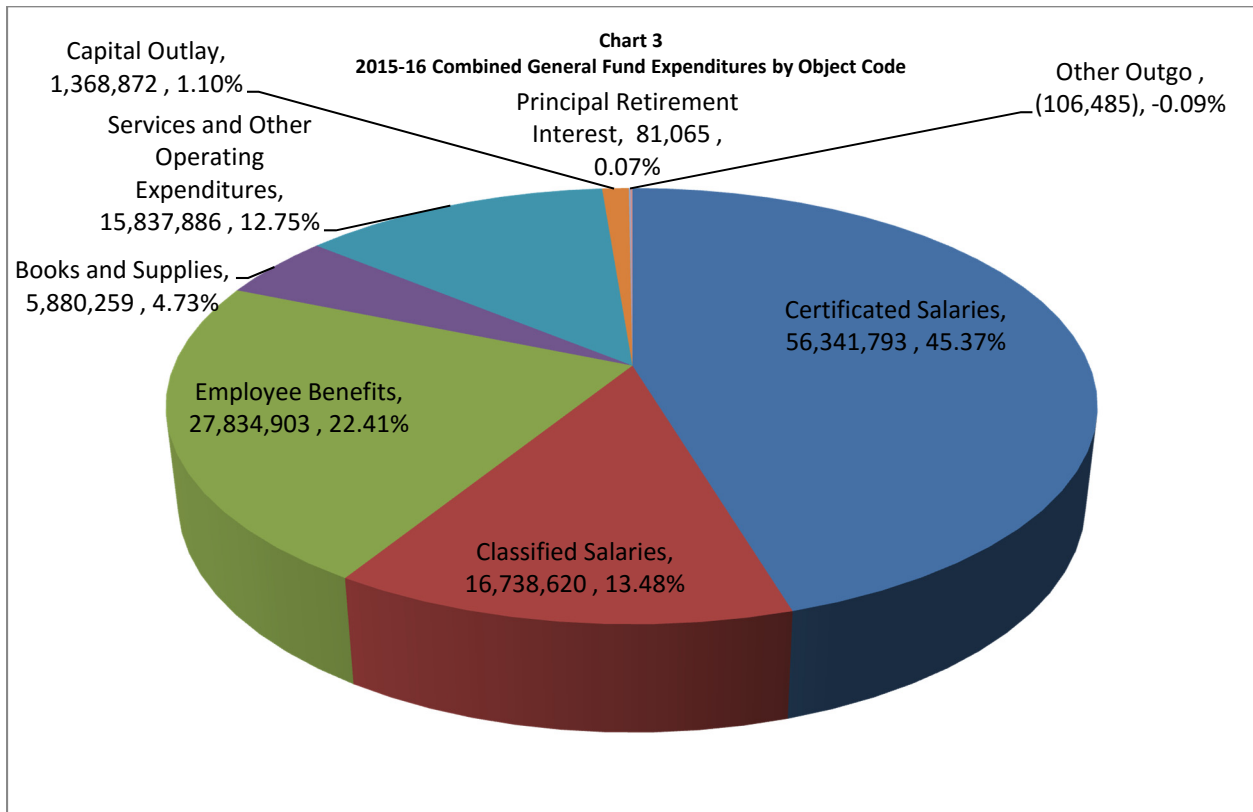
### Governmental Activities

Charts 3 and 4 provide a breakdown of the 2015-16 General Fund expenditures by Object Code and by Function Code, respectively. As is common with virtually all school districts, the majority of expenditures in the General Fund are used for salaries and benefits (approximately 81.4%). From a functional cost standpoint, Chart 4 shows that approximately 76.38% of total general fund expenditures go for instruction and instruction-related activities. The District must spend at least 60% of its total certificated salary component on classroom instruction activities. For the current fiscal year, the District spent approximately 62.00% of certificated salaries on classroom instruction activity.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

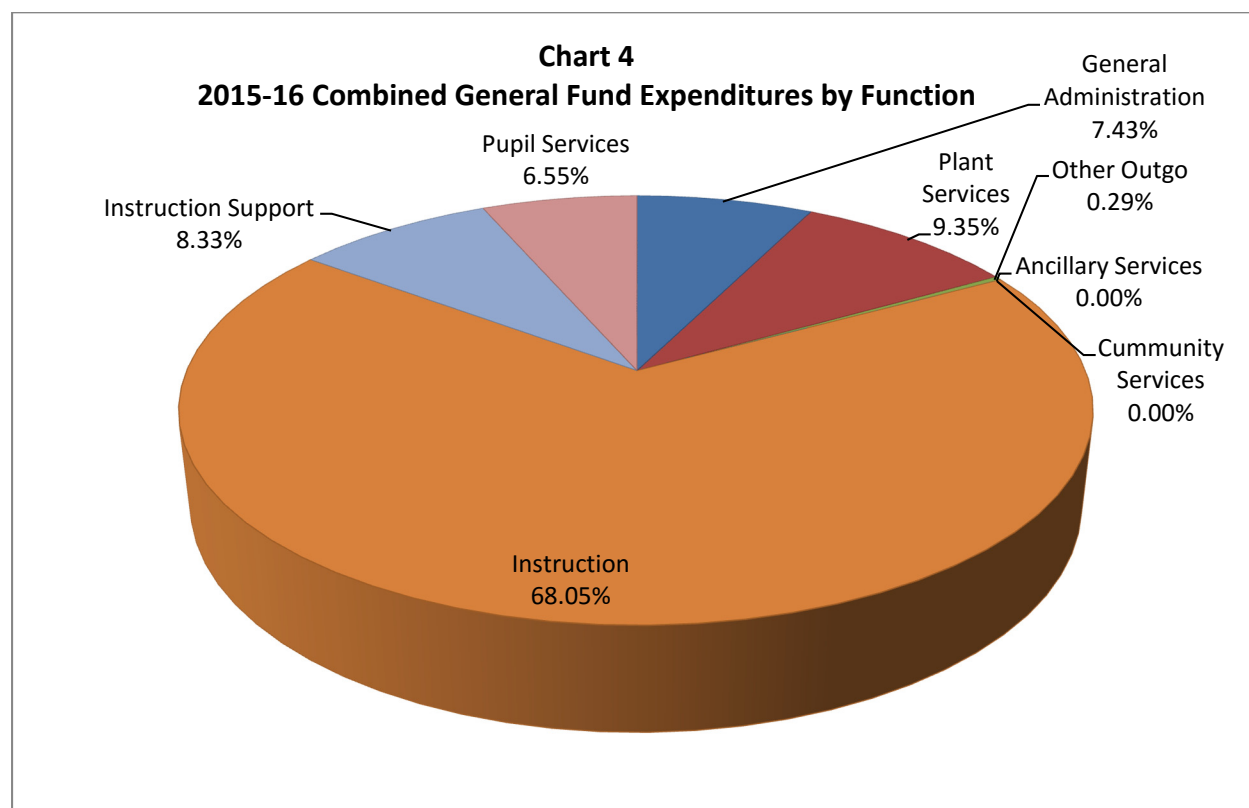
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# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016



### FACTORS BEARING ON THE DISTRICT'S FUTURE

Since approximately 80% of the District's funding is provided by LCFF, the two factors – funded percentage of LCFF in future years and ADA (average daily attendance), which are used to calculate LCFF funding for the District, are key factors to watch.

At the time these financial statements were prepared and audited, the District was aware of the following conditions that could significantly affect its financial health in the future:

- The LCFF plan is accompanied by an optimistic estimate of the resources that will be devoted to public education for the next five years. This plan will be fully implemented by fiscal year 2020-2021 if and only if, those resources materialize. Each year, District's LCFF entitlement will be determined by "any available appropriations" within the State's Budget. The District will monitor the projected revenues and status of the State Budget as it will directly affect the District's funded LCFF revenues each year to reach the LCFF entitlement in year 8.
- Enrollment continues to decline due to (1) economic decline causes families to move out of the area, and (2) the growth of charter schools within district boundaries.



## **ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016**

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#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Business Services at Alum Rock Union Elementary School District, 2930 Gay Avenue, San Jose, CA 95127.

## **BASIC FINANCIAL STATEMENTS**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2016

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	Governmental Activities
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 89,979,453
Receivables	6,147,374
Prepaid expenses	1,985,542
Inventory	55,977
Other current assets	341,521
Non-depreciable capital assets (Note 4)	5,385,574
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>103,445,249</u>
Total assets	<u>207,340,690</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on refunding	4,193,773
Deferred outflows of resources - pensions (Notes 8 and 9)	<u>9,985,745</u>
Total deferred outflows of resources	<u>14,179,518</u>
<b>LIABILITIES</b>	
Accounts payable	11,138,926
Claims liability (Note 5)	505,157
Unearned revenue	2,520,242
Long-term liabilities (Note 6):	
Due within one year	7,777,726
Due after one year	<u>239,163,767</u>
Total liabilities	<u>261,105,818</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources - pensions (Notes 8 and 9)	<u>9,811,000</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,490,607
Restricted:	
Legally restricted programs	8,356,902
Capital projects	8,808,985
Debt service	8,425,294
Self-insurance	4,284,136
Unrestricted	<u>(82,762,534)</u>
Total net position	<u><u>\$ (49,396,610)</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

		Program Revenues		Net (Expense) Revenues and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 90,347,872	\$ 100,282	\$ 18,330,492	\$ (71,917,098)
Instruction-related services:				
Instructional supervision and administration	2,912,291	-	628,474	(2,283,817)
Instructional library, media and technology	474,992	6	185	(474,801)
School site administration	7,002,994	6	14,727	(6,988,261)
Pupil services:				
Home-to-school transportation	2,900,056	-	1,021	(2,899,035)
Food services	7,438,427	60,217	7,175,701	(202,509)
All other pupil services	5,177,123	374	409,445	(4,767,304)
General administration:				
Data processing	1,940,295	-	-	(1,940,295)
All other general administration	7,273,870	3,977	855,066	(6,414,827)
Plant services	10,655,786	142	14,896	(10,640,748)
Community services	2,319	-	151,736	149,417
Interest on long-term liabilities	3,553,694	-	2,538	(3,551,156)
Other outgo	274,822	477,991	-	203,169
Total governmental activities	<u>\$ 139,954,541</u>	<u>\$ 642,995</u>	<u>\$ 27,584,281</u>	<u>(111,727,265)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				25,669,739
Taxes levied for debt service				9,084,563
Taxes levied for other specific purposes				3,762,185
Federal and state aid not restricted to specific purposes				85,438,381
Interest and investment earnings				227,700
Interagency revenues				1,018,526
Miscellaneous				<u>(55,740)</u>
Total general revenues				<u>125,145,354</u>
Change in net position				13,418,089
Net position, July 1, 2015				<u>(62,814,699)</u>
Net position, June 30, 2016				<u>\$ (49,396,610)</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	General Fund	Building Fund	Special Reserve for Capital Outlay Fund	All Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments:					
Cash in County Treasury	\$ 25,919,076	\$ 30,888,842	\$ 2,535,501	\$ 19,098,155	\$ 78,441,574
Cash on hand and in banks	(6,259)	-	-	7,030	771
Cash in revolving fund	20,000	-	-	1,000	21,000
Cash with Fiscal Agent	-	2,800,095	-	-	2,800,095
Collections awaiting deposit	2,639	-	-	1,144	3,783
Receivables	4,922,087	4,026	-	1,221,261	6,147,374
Due from other funds	6,250,000	-	-	-	6,250,000
Inventory	-	-	-	55,977	55,977
Total assets	<u>\$ 37,107,543</u>	<u>\$ 33,692,963</u>	<u>\$ 2,535,501</u>	<u>\$ 20,384,567</u>	<u>\$ 93,720,574</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 7,940,802	\$ 828,489	\$ 22,125	\$ 95,947	\$ 8,887,363
Unearned revenue	<u>53,316</u>	<u>-</u>	<u>2,466,926</u>	<u>-</u>	<u>2,520,242</u>
Total liabilities	<u>7,994,118</u>	<u>828,489</u>	<u>\$ 2,489,051</u>	<u>95,947</u>	<u>11,407,605</u>
Fund balances:					
Nonspendable	20,000	-	-	56,977	76,977
Restricted	5,252,085	32,864,474	46,450	20,231,643	58,394,652
Committed	1,000,000	-	-	-	1,000,000
Assigned	1,500,000	-	-	-	1,500,000
Unassigned	<u>21,341,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,341,340</u>
Total fund balances	<u>29,113,425</u>	<u>32,864,474</u>	<u>46,450</u>	<u>20,288,620</u>	<u>82,312,969</u>
Total liabilities and fund balances	<u>\$ 37,107,543</u>	<u>\$ 33,692,963</u>	<u>\$ 2,535,501</u>	<u>\$ 20,384,567</u>	<u>\$ 93,720,574</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2016

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Total fund balances - Governmental Funds	\$	82,312,969
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$231,948,343 and the accumulated depreciation is \$123,117,520 (Note 4).		108,830,823
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Unmatured interest on long-term liabilities 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.		(2,251,563)
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In governmental funds, deferred outflows of resources resulting from defeasance of debt are not recorded. In governmental activities, for advance refundings resulting in defeasance of debt reported in governmental activities, the difference between reacquisition price and the net carrying amount of the retired debt are reported as deferred outflows of resources.		4,193,773
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In government 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 (Notes 8 and 9).

Deferred outflows of resources relating to pensions	\$ 9,985,745	
Deferred inflows of resources relating to pensions	<u>(9,811,000)</u>	
		174,745

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost- recovery basis. Net position for the Self-Insurance Fund:		4,284,136
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at June 30, 2016 consisted of (Note 6):

General Obligation Bonds	\$ (113,293,155)	
Accreted interest	(285,850)	
Unamortized premiums	(7,242,238)	
Certificates of Participation	(25,000,000)	
Supplemental employee retirement plan (SERP)	(310,343)	
Net pension liability (Notes 8 and 9)	(100,490,000)	
Compensated absences	<u>(319,907)</u>	<u>(246,941,493)</u>

Total net position - governmental activities	\$	<u><u>(49,396,610)</u></u>
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The accompanying notes are an integral  
part of these financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2016

	General Fund	Building Fund	Special Reserve for Capital Outlay Fund	All Non-Major Funds	Total Governmental Funds
Revenues:					
Local Control Funding Formula:					
State apportionment	\$ 82,813,845	\$ -	\$ -	\$ -	\$ 82,813,845
Local sources	<u>20,343,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,343,324</u>
Total local control funding formula	<u>103,157,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,157,169</u>
Federal sources	6,951,461	-	\$ -	7,198,994	14,150,455
Other state sources	16,489,403	-	26,098	588,082	17,103,583
Other local sources	<u>8,851,251</u>	<u>214,372</u>	<u>329</u>	<u>9,742,846</u>	<u>18,808,798</u>
Total revenues	<u>135,449,284</u>	<u>214,372</u>	<u>26,427</u>	<u>17,529,922</u>	<u>153,220,005</u>
Expenditures:					
Current:					
Certificated salaries	56,341,793	-	-	-	56,341,793
Classified salaries	16,738,620	73,489	-	2,474,875	19,286,984
Employee benefits	27,834,904	23,843	-	1,318,040	29,176,787
Books and supplies	5,880,260	1,424	-	3,571,390	9,453,074
Contract services and operating expenditures	15,837,885	1,262,195	26,098	97,671	17,223,849
Capital outlay	1,368,872	6,196,131	-	15,560	7,580,563
Other outgo	274,822	-	-	-	274,822
Debt service:					
Principal retirement	-	540,000	-	3,776,030	4,316,030
Interest	<u>81,065</u>	<u>3,844,283</u>	<u>-</u>	<u>4,613,464</u>	<u>8,538,812</u>
Total expenditures	<u>124,358,221</u>	<u>11,941,365</u>	<u>26,098</u>	<u>15,867,030</u>	<u>152,192,714</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,091,063</u>	<u>(11,726,993)</u>	<u>329</u>	<u>1,662,892</u>	<u>1,027,291</u>
Other financing sources (uses):					
Transfers in	381,307	-	-	200,000	581,307
Transfers out	(200,000)	-	-	(381,307)	(581,307)
Proceeds from issuance of general obligation bonds	-	54,895,000	-	-	54,895,000
Premium on issuance of debt	-	4,514,987	-	1,018,526	5,533,513
Payment to refunding escrow	<u>-</u>	<u>(36,990,000)</u>	<u>-</u>	<u>-</u>	<u>(36,990,000)</u>
Total other financing sources	<u>181,307</u>	<u>22,419,987</u>	<u>-</u>	<u>837,219</u>	<u>23,438,513</u>
Net change in fund balances	11,272,370	10,692,994	329	2,500,111	24,465,804
Fund balances, July 1, 2015	<u>17,841,055</u>	<u>22,171,480</u>	<u>46,121</u>	<u>17,788,509</u>	<u>57,847,165</u>
Fund balances, June 30, 2016	<u>\$ 29,113,425</u>	<u>\$ 32,864,474</u>	<u>\$ 46,450</u>	<u>\$ 20,288,620</u>	<u>\$ 82,312,969</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

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Net change in fund balances - Total Governmental Funds	\$	24,465,804
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Amounts reported for governmental activities in the statement of activities are different because:

Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	\$	7,597,263
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).		(6,611,425)
In governmental funds, deferred outflows of resources are not recognized. In the government-wide statements, deferred outflows of resources amortized over the life of the debt.		3,786,035
Debt issue premiums are recognized as revenues in the period they are incurred. In government-wide statements, issue premiums are amortized over the life of the debt (Note 6).		(4,939,174)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).		4,316,030
Payments made to refunding escrow is an other financing use in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).		36,990,000
In governmental funds, proceeds from debt are recognized as other financing sources. In the statement of net position, proceeds from debt are reported as increases to liabilities (Note 6).		(54,895,000)
Interest on long-term liabilities is recognized in the period it is incurred, in governmental funds it is only recognized when it is due.		265,790
Accreted interest on capital appreciation bonds is recognized in the period it is incurred. In governmental funds it is only recognized when it is due (Note 6).		28,611
Internal service funds are presumed to benefit governmental activities.		2,461,283
In the statement of activities, expenses related to the Supplemental Employee Retirement Plan (SERP) are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).		310,343
In government funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This year, the difference between accrual-basis pension costs and actual employer contributions was:		(312,130)

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(Continued)



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016  
(Continued)

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In the statement of activities, expenses related to compensated  
absences are measured by the amounts earned during the year.

In the governmental funds, expenditures are measured by the  
amount of financial resources used (Note 6).

\$ (45,341) (11,047,715)

Change in net position of governmental activities

\$ 13,418,089

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND  
SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES  
June 30, 2016

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**ASSETS**

Cash and investments:	
Cash in County Treasury	\$ 8,454,340
Cash with Fiscal Agent	257,890
Prepaid expenses	1,985,542
Other current assets	<u>341,521</u>
Total current assets	<u>11,039,293</u>

**LIABILITIES**

Due to other funds	6,250,000
Claims liability	<u>505,157</u>
Total current liabilities	<u>6,755,157</u>

**NET POSITION**

Restricted for self-insurance	<u><u>\$ 4,284,136</u></u>
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The accompanying notes are an integral  
part of these financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF CHANGE IN  
FUND NET POSITION - PROPRIETARY FUND  
SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES  
For the Year Ended June 30, 2016

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Operating revenues:	
Self-insurance premiums	<u>\$ 18,810,008</u>
Operating expenses:	
Classified salaries	62,009
Employee benefits	28,232
Books and supplies	4,827
Contract services	<u>16,300,435</u>
Total operating expenses	<u>16,395,503</u>
Operating income	2,414,505
Non-operating revenue:	
Interest income	<u>46,778</u>
Change in net position	2,461,283
Total net position, July 1, 2015	<u>1,822,853</u>
Total net position, June 30, 2016	<u><u>\$ 4,284,136</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES  
For the Year Ended June 30, 2016

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Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 18,810,008
Cash paid for other activities	(4,827)
Cash paid for employee services	(90,241)
Cash paid for contract services	<u>(18,040,327)</u>
Net cash provided by operating activities	674,613
Cash flows provided by investing activities:	
Interest income	<u>46,778</u>
Increase in cash and investments	721,391
Cash and investments, July 1, 2015	<u>7,990,839</u>
Cash and investments, June 30, 2016	<u><u>\$ 8,712,230</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 2,414,505</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in prepaid expenses	(1,008,452)
Decrease in claims liability	<u>(731,440)</u>
Total adjustments	<u>(1,739,892)</u>
Net cash provided by operating activities	<u><u>\$ 674,613</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS  
June 30, 2016

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	Student Body <u>Fund</u>
<b>ASSETS</b>	
Cash on hand and in banks (Note 2)	<u>\$ 290.029</u>
<b>LIABILITIES</b>	
Due to student groups	<u>\$ 290.029</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Alum Rock Union Elementary School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies.

Reporting Entity: The Board of Trustees is the level of government which has governance responsibilities over all activities related to public elementary school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District receives funding from local, state and federal governmental sources and must comply with all the requirements of these funding source entities.

Basis of Presentation - Financial Statements: The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements: The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation - Fund Accounting: The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**A - Major Funds**

**General Fund:**

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

**Building Fund:**

The Building Fund is a capital projects fund used to account for resources used for the acquisition of capital facilities by the District.

**Special Reserve for Capital Outlay Fund:**

The Special Reserve for Capital Outlay Fund is a capital projects fund that provides for the accumulation of General Fund moneys for capital outlay purposes.

**B - Other Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This includes the Cafeteria and Deferred Maintenance Funds.

Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by the District. This includes the Capital Facilities and County School Facilities Funds.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This includes the Bond Interest and Redemption and Tax Override Funds.

Self-Insurance Fund is an internal service fund which is used to account for the District's employee medical, dental and vision benefits.

The Student Body Fund is a Fiduciary Fund for which the District acts as an agent. All cash activity and assets of the various student bodies of the District are accounted for in the Student Body Fund.

Basis of Accounting: Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accrual: Governmental activities in the government-wide financial statements, proprietary fund and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible in the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting: By state law, the Board of Trustees must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Trustees complied with these requirements.

Receivables: Receivables are made up principally of amounts due from the State of California and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2016.

Inventory: Inventory in the Cafeteria Fund consists mainly of consumable supplies held for future use and are valued at actual cost. Inventories are recorded as expenditures at the time individual inventory items are transferred from the warehouse to schools and offices.

Capital Assets: Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at acquisition value for the contributed asset. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

Interfund Activity: Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position includes 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(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding of debt on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter life of the refunded or refunding debt. Amortization for the year ended June 30, 2016 totaled \$58,248. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the pension liability reported in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled \$455,000.

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(Continued)



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the Statement of Net Position includes 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(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the pension liability reported which is in the Statement of Net Position. Amortization for the year ended June 30, 2016 totaled \$4,169,900.

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 State Teachers' Retirement Plan (STRP) and Public Employers Retirement Fund B (PERF B) and additions to/deductions from STRP's and PERF B's fiduciary net position have been determined on the same basis as they are reported by STRP and PERF B. 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. The following is a summary of pension amounts in aggregate:

	<u>STRP</u>	<u>PERF B</u>	<u>Total</u>
Deferred outflows of resources	\$ 6,122,415	\$ 3,863,330	\$ 9,985,745
Deferred inflows of resources	\$ 7,528,000	\$ 2,283,000	\$ 9,811,000
Net pension liability	\$ 76,636,000	\$ 23,854,000	\$ 100,490,000
Pension expense	\$ 10,092,672	\$ 2,170,163	\$ 12,262,835

Compensated Absences: Compensated absences benefits in the amount of \$319,907 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave: Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated sick leave benefits are not recognized as liabilities of the District since cash payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that sick leave is taken.

Unearned Revenue: Revenues from federal, state, and local special projects and programs are recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

Net Position: Net position is displayed in three components:

1 - Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances (excluding unspent bond proceeds) of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2- Restricted Net Position - Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for legally restricted programs represents the portion of net position restricted to specific program expenditures. The restriction for capital projects represents the portion of net position restricted for capital projects. The restriction for debt service represents the portion of net position available for the retirement of debt. The restriction for self-insurance represents the portion of net position restricted for payment of the self-insured claims. It is the District's policy to use restricted net position first when allowable expenditures are incurred.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

3 - Unrestricted Net Position - All other net position that does not meet the definitions of "restricted" or "net investment in capital assets".

Fund Balance Classifications: Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

**A - Nonspendable Fund Balance:**

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash and inventory.

**B - Restricted Fund Balance:**

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. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

**C - Committed Fund Balance:**

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. 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.

**D - Assigned Fund Balance:**

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Trustees can designate personnel with the authority to assign fund balances, however, as of June 30, 2016, no such designation has occurred.

**E - Unassigned Fund Balance:**

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.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. 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.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Balance Policy: The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2016, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

Property Taxes: Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Santa Clara bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Eliminations and Reclassifications: In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

**NOTE 2 - CASH AND INVESTMENTS**

Cash and investments at June 30, 2016 consisted of the following:

	Governmental <u>Activities</u>	Fiduciary <u>Funds</u>
Pooled Funds:		
Cash in County Treasury:		
Cash in County Treasury	\$ 86,895,914	\$ -
Collections awaiting deposit	3,783	-
Deposits:		
Cash on hand and in banks	771	290,029
Cash in revolving fund	21,000	-
Cash with Fiscal Agent	<u>3,057,985</u>	<u>-</u>
Total	<u><u>\$ 89,979,453</u></u>	<u><u>\$ 290,029</u></u>

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Santa Clara Treasurer's Pooled Investment Fund. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Deposits - Custodial Credit Risk: The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2016, the carrying amount of the District's accounts was \$311,800 and the bank balance was \$308,983, of which \$58,983 was uninsured.

Cash with Fiscal Agent: Cash with Fiscal Agent represents funds held by Fiscal Agents restricted for capital projects. The District holds their funds with U.S Bank in money market funds.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The money market funds of \$3,057,985 are considered Level 1.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2016, the District had no significant interest rate risk related to cash and investments held.

Credit Risk: The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2016, the District had no concentration of credit risk.

**NOTE 3 - INTERFUND TRANSACTIONS**

Interfund Activity: Transactions between funds of the District are recorded as interfund transfers, except for the Self-Insurance Fund activity which is recorded as income and expenditures of the Self-Insurance Fund and the General Fund respectively. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 3 - INTERFUND TRANSACTIONS (Continued)**

Interfund Receivables/Payables: Individual fund interfund receivable and payable balances at June 30, 2016 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund: General	\$ 6,250,000	\$ -
Proprietary Fund: Self-Insurance	<u>-</u>	<u>6,250,000</u>
Totals	<u>\$ 6,250,000</u>	<u>\$ 6,250,000</u>

Transfers: Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Transfers for the 2015-2016 fiscal year were as follows:

Transfer from the General Fund to the Deferred Maintenance Fund for deferred maintenance.	\$ 200,000
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	<u>381,307</u>
	<u>\$ 581,307</u>

**NOTE 4 - CAPITAL ASSETS**

	<u>Balance July 1, 2015</u>	<u>Transfers and Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2016</u>
Non-depreciable:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Work-in-progress	2,436,579	2,449,540	(1,909,223)	2,976,896
Depreciable:				
Buildings	163,127,338	4,609,667	1,909,223	169,646,228
Equipment 14,763,121	520,676	-	15,283,797	
Improvement of sites	<u>41,615,364</u>	<u>17,380</u>	<u>-</u>	<u>41,632,744</u>
Totals, at cost	<u>224,351,080</u>	<u>7,597,263</u>	<u>-</u>	<u>231,948,343</u>
Less accumulated depreciation:				
Buildings	(81,560,465)	(4,153,941)	-	(85,714,406)
Equipment (9,192,803)	(1,399,061)	-	(10,591,864)	
Improvement of sites	<u>(25,752,827)</u>	<u>(1,058,423)</u>	<u>-</u>	<u>(26,811,250)</u>
Total accumulated depreciation	<u>(116,506,095)</u>	<u>(6,611,425)</u>	<u>-</u>	<u>(123,117,520)</u>
Capital assets, net	<u>\$ 107,844,985</u>	<u>\$ 985,838</u>	<u>\$ -</u>	<u>\$ 108,830,823</u>

(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 4 - CAPITAL ASSETS** (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 6,611,425</u>
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**NOTE 5 - SELF-INSURANCE**

The District buys medical coverage (medical, dental, vision) for their employees from insurance carriers. However, for certain medical plans, the District provides a third party administrator of self-insured medical benefits with rates set through an annual calculation process. The employees' and Districts' contribution are put into a common fund from which premiums and payments are made for participants. The District records and estimated liability for its self-insured medical plans.

The Medical claims liability of \$505,157 is based on an actuarial estimate discounted at 5%. Changes in the District's claims liabilities for the year ended June 30, 2016 were as follows:

	<u>Total</u>
Claims liability at July 1, 2014	\$ 600,118
Incurred claims	18,565,164
Claim payments	<u>(17,928,685)</u>
Claims liability at June 30, 2015	1,236,597
Incurred claims	17,308,887
Claim payments	<u>(18,040,327)</u>
Claims liability at June 30, 2016	<u>\$ 505,157</u>

**NOTE 6 - LONG-TERM LIABILITIES**

General Obligation Bonds: On September 6, 2007 the District issued \$9,665,000 of General Obligation Refunding Bonds to refund prior bonds issued including General Obligation Bonds Series of 1997, and 2001 General Obligation Bonds, Series D. The Bonds mature in varying amounts through September 2026 with interest rates from 4.3% to 5.0%.

The following is a summary of the future bond payments:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 429,618	\$ 429,618
2018	2,755,000	353,855	3,108,855
2019	2,480,000	227,252	2,707,252
2020	120,000	173,922	293,922
2021	35,000	170,688	205,688
2022-2026	3,275,000	526,822	3,801,822
2027	<u>700,000</u>	<u>15,050</u>	<u>715,050</u>
	<u>\$ 9,365,000</u>	<u>\$ 1,897,207</u>	<u>\$ 11,262,207</u>

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

On August 19, 2008 the District issued \$37,590,000 of current interest and \$1,410,328 of capital appreciation Election of 2008 General Obligation Bonds, Series A General Obligation Bonds to finance the renovating and equipping of school facilities. The capital appreciation bonds mature in varying amounts through August 2018 with interest rates from 3.0% to 4.56%. With the issuance of the 2015 General Obligation Refunding Bonds in August 2015, \$36,990,000 of the Election of 2008 General Obligation Bonds, Series A bonds were refunded and remain outstanding at June 30, 2016.

The following is a summary of the future bond payments:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 318,485	\$ 121,515	\$ 440,000
2018	-	-	-
2019	<u>434,670</u>	<u>245,330</u>	<u>680,000</u>
	<u>\$ 753,155</u>	<u>\$ 366,845</u>	<u>\$ 1,120,000</u>

On March 31, 2010 the District issued \$13,600,000 of General Obligation Refunding Bonds to refund prior bonds issued including General Obligation Bonds Series of 1997 and 2001 General Obligation Bonds, Series D. The Bonds mature in varying amounts through September 2026 with interest rates from 3.0% to 5.0%.

The following is a summary of the future bond payments:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,310,000	\$ 273,201	\$ 3,583,201
2018	325,000	190,450	515,450
2019	330,000	180,625	510,625
2020	-	175,676	175,676
2021	490,000	166,488	656,488
2022-2026	2,760,000	478,725	3,238,725
2027	<u>645,000</u>	<u>16,125</u>	<u>661,125</u>
	<u>\$ 7,860,000</u>	<u>\$ 1,481,290</u>	<u>\$ 9,341,290</u>

On July 9, 2012 the District issued \$12,035,000 of General Obligation Refunding Bond Series A and B to refund a portion of the District's outstanding 2003 General Obligation Refunding Bonds, a portion of its 2005 General Obligation Refunding Bonds, and to pay costs of issuing the Refunding Bonds. The Bonds mature in varying amounts through September 2021 with interest rates from 0.7% to 5.0%. No amounts are outstanding on the Series B.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

The following is a summary of the future bond payments for Series A:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 140,000	\$ 261,500	\$ 401,500
2018	120,000	258,200	378,200
2019	1,060,000	235,800	1,295,800
2020	1,595,000	182,700	1,777,700
2021	1,735,000	116,100	1,851,100
2022	<u>1,785,000</u>	<u>40,700</u>	<u>1,825,700</u>
	<u>\$ 6,435,000</u>	<u>\$ 1,095,000</u>	<u>\$ 7,530,000</u>

On July 18, 2013 the District issued \$32,400,000 of General Obligation Bonds to finance the renovating and equipping of school facilities. The Bonds mature in varying amounts through August 2043 with interest rates from 4.0% to 4.25%.

The following is a summary of the future bond payments:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	8,855,750	8,855,750
2027-2031	2,230,000	8,764,650	10,994,650
2032-2034	6,705,000	7,755,525	14,460,525
2037-2041	12,345,000	5,194,425	17,539,425
2042-2044	<u>11,120,000</u>	<u>1,203,825</u>	<u>12,323,825</u>
	<u>\$ 32,400,000</u>	<u>\$ 31,774,175</u>	<u>\$ 64,174,175</u>

On August 15, 2013 the District issued \$3,600,000 of General Obligation Bonds 2012 Election, Series B to finance the renovating and equipping of school facilities. The Bonds mature in varying amounts through August 2023 with interest rates from 0.496% to 2.641%.

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(Continued)



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

The following is a summary of the future bond payments:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 165,000	\$ 57,542	\$ 222,542
2018	175,000	55,039	230,039
2019	185,000	51,292	236,292
2020	200,000	46,406	246,406
2021	220,000	37,651	257,651
2022-2024	<u>640,000</u>	<u>51,660</u>	<u>691,660</u>
	<u>\$ 1,585,000</u>	<u>\$ 299,590</u>	<u>\$ 1,884,590</u>

On August 13, 2015 the District issued 2015 General Obligation Refunding Bonds in the amount of \$37,395,000. The 2015 Refunding Bonds were issued to advance refund a portion of the District's outstanding Election of 2008 General Obligation Bonds, Series A. The Bonds mature during succeeding years through August 2033. The bonds were issued at varying interest rates from 3% to 5%.

The following is a summary of the future bond payments:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 280,000	\$ 1,492,068	\$ 1,772,068
2018	110,000	1,662,550	1,772,550
2019	115,000	1,660,350	1,775,350
2020	875,000	1,656,900	2,531,900
2021	1,030,000	1,621,900	2,651,900
2022-2026	8,085,000	7,150,500	15,235,500
2027-2031	14,410,000	4,705,050	19,115,050
2032-2034	<u>12,490,000</u>	<u>1,260,950</u>	<u>13,750,950</u>
	<u>\$ 37,395,000</u>	<u>\$ 21,210,268</u>	<u>\$ 58,605,268</u>

Although the advance refunding resulted in the recognition of an accounting loss of \$3,844,283 for the year ended June 30, 2016, the District in effect reduced its aggregate debt service payments by \$2,772,958 over the next 18 years and obtained an economic gain of \$2,052,991.

Calculation of difference in cash flow requirements and economic gain are as follows:

Old debt service cash flows	\$ 61,378,225
New debt service cash flows	<u>58,605,267</u>
Cash flow difference	<u>\$ 2,772,958</u>
Present value of old debt service cash flows	\$ 45,035,276
Present value of new debt service cash flows	<u>42,982,285</u>
Economic gain	<u>\$ 2,052,991</u>

(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

On January 14, 2016, the District issued \$17,500,000 of General Obligation Bonds 2012 Election, Series C to finance the renovating and equipping of school facilities. The Bonds mature in varying amounts through August 2040 with interest rates from 2.0% to 5.25%.

The following is a summary of the future bond payments:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 256,940	\$ 256,940
2018	320,000	505,456	825,456
2019	160,000	499,056	659,056
2020	-	494,256	494,256
2021	80,000	494,256	574,256
2022-2026	1,430,000	3,602,706	5,032,706
2027-2031	3,410,000	3,274,313	6,684,313
2032-2034	4,655,000	2,449,513	7,104,513
2037-2041	<u>7,445,000</u>	<u>1,246,088</u>	<u>8,691,088</u>
	<u>\$ 17,500,000</u>	<u>\$ 12,822,584</u>	<u>\$ 30,322,584</u>

Certificates of Participation: In June 2010, the District issued 2010 Series A Certificates of Participation (COPs) totaling \$25,000,000 for the purpose of financing the modernization, equipping, furnishing and/or improving of certain capital facilities of the District. The COPs bear an interest rate of 5.470% and mature through June 2026.

The following is a summary of future payments for Certificates of Participation:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,270,000	\$ 1,367,500	\$ 3,637,500
2018	2,270,000	1,243,332	3,513,332
2019	2,270,000	1,119,162	3,389,162
2020	2,270,000	994,992	3,264,992
2021	2,270,000	870,824	3,140,824
2022-2026	<u>13,650,000</u>	<u>2,488,851</u>	<u>16,138,851</u>
	<u>\$ 25,000,000</u>	<u>\$ 8,084,661</u>	<u>\$ 33,084,661</u>

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 6 - LONG-TERM LIABILITIES (Continued)**

**Supplemental Employee Retirement Plan:** The District provides a supplemental early retirement plan in two premium annuity contracts with United of Omaha and Principal Financial Group. The contracts are payable annually as per the schedule below:

Year Ending <u>June 30,</u>	Total <u>Payments</u>
2017	\$ <u><u>310,343</u></u>

**Changes in Long-Term Liabilities:** A schedule of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>	Amounts Due Within <u>One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 99,704,185	\$ 54,895,000	\$ 41,306,030	\$ 113,293,155	\$ 4,213,485
Accreted interest	314,461	50,359	78,970	285,850	-
Unamortized premiums	2,303,064	5,533,513	594,339	7,242,238	663,991
Certificates of Participation	25,000,000	-	-	25,000,000	2,270,000
SERP	620,686	-	310,343	310,343	310,343
Net pension liability (Notes 8 and 9)	83,144,000	17,346,000	-	100,490,000	-
Compensated absences	<u>274,566</u>	<u>45,341</u>	<u>-</u>	<u>319,907</u>	<u>319,907</u>
	<u>\$ 211,360,962</u>	<u>\$ 77,870,213</u>	<u>\$ 42,289,682</u>	<u>\$ 246,941,493</u>	<u>\$ 7,777,726</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The compensated absences and SERP will be paid by the fund for which the employee worked.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7 - FUND BALANCES**

Fund balances, by category, at June 30, 2016 consisted of the following:

	General Fund	Building Fund	Special Reserve for Capital Outlay Fund	All Non-Major Funds	Total
Nonspendable:					
Revolving cash fund	\$ 20,000	\$ -	\$ -	\$ 1,000	\$ 21,000
Stores Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,977</u>	<u>55,977</u>
Subtotal nonspendable	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>56,977</u>	<u>76,977</u>
Restricted:					
Legally restricted programs	5,252,085	-	-	3,047,840	8,299,925
Capital projects	-	32,864,474	46,450	8,758,509	41,669,433
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,425,294</u>	<u>8,425,294</u>
Subtotal restricted	<u>5,252,085</u>	<u>32,864,474</u>	<u>46,450</u>	<u>20,231,643</u>	<u>58,394,652</u>
Committed:					
CalPERS Liability	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
Assigned:					
Facility improvements	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Unassigned:					
Designated for economic uncertainty	3,719,307	-	-	-	3,719,307
Undesignated	<u>17,622,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,622,033</u>
Subtotal unassigned	<u>21,341,340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,341,340</u>
Total fund balances	<u>\$ 29,113,425</u>	<u>\$ 32,864,474</u>	<u>\$ 46,450</u>	<u>\$ 20,288,620</u>	<u>\$ 82,312,969</u>

**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN**

*General Information about the State Teachers' Retirement Plan*

Plan Description: Teaching-certified employees of the District are provided with pensions through the State Teachers' Retirement Plan (STRP) – a cost-sharing multiple-employer defined benefit pension plan administered by the California State Teachers' Retirement System (CalSTRS). The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established this plan and CalSTRS as the administrator. The benefit terms of the plans may be amended through legislation. CalSTRS issues a publicly available financial report that can be obtained at <http://www.calstrs.com/comprehensive-annual-financial-report>.

(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

Benefits Provided: The STRP Defined Benefit Program has two benefit formulas:

- 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 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS.

The Defined Benefit Program provides retirement benefits based on members' final compensation, age and years of service credit. In addition, the retirement program provides benefits to members upon disability and to survivors/beneficiaries upon the death of eligible members. There are several differences between the two benefit formulas which are noted below.

*CalSTRS 2% at 60*

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.

CalSTRS calculates retirement benefits based on a one-year final compensation for members who retired on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elected to pay the additional benefit cost prior to January 1, 2014. One-year final compensation means a member's highest average annual compensation earnable for 12 consecutive months calculated by taking the creditable compensation that a member could earn in a school year while employed on a fulltime basis, for a position in which the person worked. For members with less than 25 years of credited service, final compensation is the highest average annual compensation earnable for any three consecutive years of credited service.

*CalSTRS 2% at 62*

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.

All CalSTRS 2% at 62 members have their final compensation based on their highest average annual compensation earnable for three consecutive years of credited service.

Contributions: Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

*Members* - Under CalSTRS 2% at 60, the member contribution rate was 9.20 percent of applicable member earnings for fiscal year 2015-16. Under CalSTRS 2% at 62, members contribute 50 percent of the normal cost of their retirement plan, which resulted in a contribution rate of 8.56 percent of applicable member earnings for fiscal year 2015-16.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

In general, member contributions cannot increase unless members are provided with some type of "comparable advantage" in exchange for such increases. Under previous law, the Legislature could reduce or eliminate the 2 percent annual increase to retirement benefits. As a result of AB 1469, effective July 1, 2014, the Legislature cannot reduce the 2 percent annual benefit adjustment for members who retire on or after January 1, 2014, and in exchange for this "comparable advantage," the member contribution rates have been increased by an amount that covers a portion of the cost of the 2 percent annual benefit adjustment.

Effective July 1, 2014, with the passage of AB 1469, member contributions for those under the 2% at 60 benefit structure increase from 8.0 percent to a total of 10.25 percent of applicable member earnings, phased in over the next three years. For members under the 2% at 62 benefit structure, contributions will increase from 8.0 percent to 9.205 percent of applicable member earnings, again phased in over three years, if there is no change to normal cost.

*Employers* – 10.73 percent of applicable member earnings.

In accordance with AB 1469, employer contributions will increase from 8.25 percent to a total of 19.1 percent of applicable member earnings phased in over seven years starting in 2014. The new legislation also gives the board limited authority to adjust employer contribution rates from July 1, 2021 through June 2046 in order to eliminate the remaining unfunded actuarial obligation related to service credited to members prior to July 1, 2014. The board cannot adjust the rate by more than 1 percent in a fiscal year, and the total contribution rate in addition to the 8.25 percent cannot exceed 12 percent.

The CalSTRS employer contribution rate increases effective for fiscal year 2015-16 through fiscal year 2045-46 are summarized in the table below:

<u>Effective Date</u>	<u>Prior Rate</u>	<u>Increase</u>	<u>Total</u>
July 01, 2015	8.25%	2.48%	10.73%
July 01, 2016	8.25%	4.33%	12.58%
July 01, 2017	8.25%	6.18%	14.43%
July 01, 2018	8.25%	8.03%	16.28%
July 01, 2019	8.25%	9.88%	18.13%
July 01, 2020	8.25%	10.85%	19.10%
July 01, 2046	8.25%	Increase from prior rate ceases in 2046-47	

The District contributed \$5,688,415 to the plan for the fiscal year ended June 30, 2016.

*State* - 7.391 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2012 there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to make quarterly payments starting October 1, 2013, at an additional contribution rate of 1.024 percent. As of June 30, 2014, the state contributed \$200.7 million of the \$267.6 million total amount for fiscal year 2013-14. As a result of AB 1469, the fourth quarterly payment of \$66.9 million was included in an increased first quarter payment of \$94 million for the 2015-16 fiscal year, which was transferred on July 1, 2014.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN** (Continued)

In accordance with AB 1469, the portion of the state appropriation under Education Code Section 22955(b) that is in addition to the 2.017 percent has been replaced by section 22955.1(b) in order to fully fund the benefits in effect as of 1990 by 2046. The additional state contribution will increase from 1.437 percent in 2015-16 to 4.311 percent in 2016-17. The increased contributions end as of fiscal year 2046-2047.

The CalSTRS state contribution rates effective for fiscal year 2015-16 and beyond are summarized in the table below:

<u>Effective Date</u>	<u>Base Rate</u>	<u>AB 1469 Increase For 1990 Benefit Structure</u>	<u>SBMA Funding</u>	<u>Total State Appropriation to DB Program</u>
July 01, 2015	2.017%	2.874%	2.50%	7.391%
July 01, 2016	2.017%	4.311%	2.50%	8.828%
July 01, 2017 to June 30, 2046	2.017%	4.311%*	2.50%	8.828%*
July 01, 2046 and thereafter	2.017%	*	2.50%	4.517%*

\* The new legislation also gives the board limited authority to adjust state contribution rates from July 1, 2017, through June 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to zero percent. Rates in effect prior to July 1, 2014, are reinstated if necessary to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

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

At June 30, 2016, 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	\$ 76,636,000
State's proportionate share of the net pension liability associated with the District	<u>40,532,000</u>
Total	<u><u>\$ 117,168,000</u></u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating school Districts and the State. At June 30, 2015, the District's proportion was 0.114 percent, which was an increase of 0.001 percent from its proportion measured as of June 30, 2014.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN** (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$10,092,672 and revenue of \$4,027,962 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,281,000
Changes of assumptions	-	-
Net differences between projected and actual earnings on investments	-	6,247,000
Changes in proportion and differences between District contributions and proportionate share of contributions	434,000	-
Contributions made subsequent to measurement date	<u>5,688,415</u>	<u>-</u>
Total	<u>\$ 6,122,415</u>	<u>\$ 7,528,000</u>

\$5,688,415 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended <u>June 30,</u>	
2017	\$ (2,726,133)
2018	\$ (2,726,133)
2019	\$ (2,726,133)
2020	\$ 1,368,733
2021	\$ (140,667)
2022	\$ (143,667)

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 7 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

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(Continued)



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN (Continued)**

**Actuarial Methods and Assumptions:** The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014 and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.60%
Consumer Price Inflation	3.00%
Wage Growth	3.75%
Post-retirement Benefit Increases	2.00% simple for DB Not applicable for DBS/CBB

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries. See CalSTRS July 1, 2006 – June 30, 2010 experience analysis for more information.

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

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term* Expected Real Rate of Return</u>
Global Equity	47%	4.50%
Private Equity	12	6.20
Real Estate	15	4.35
Inflation Sensitive	5	3.20
Fixed Income	20	0.20
Cash / Liquidity	1	0.00

\* 10-year geometric average

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 8 – NET PENSION LIABILITY – STATE TEACHERS' RETIREMENT PLAN** (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increase per Assembly Bill 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.60 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 (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease <u>(6.60%)</u>	Current Discount Rate <u>(7.60%)</u>	1% Increase <u>(8.60%)</u>
District's proportionate share of the net pension liability	<u>\$115,714,000</u>	<u>\$ 76,636,000</u>	<u>\$ 44,159,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalSTRS financial report.

**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER'S RETIREMENT FUND B**

*General Information about the Public Employer's Retirement Fund B*

Plan Description: The schools cost-sharing multiple-employer defined benefit pension plan Public Employer's Retirement Fund B (PERF B) is administered by the California Public Employees' Retirement System (CalPERS). Plan membership consists of non-teaching and non-certified employees of public schools (K-12), community college districts, offices of education, charter and private schools (elective) in the State of California.

The Plan was established to provide retirement, death and disability benefits to non-teaching and noncertified employees in schools. The benefit provisions for Plan employees are established by statute. CalPERS issues a publicly available financial report that can be obtained at the CalPERS website.

Benefits Provided: The benefits for the defined benefit plans 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 (10 years for State Second Tier members) of credited service.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)**

Contributions: The benefits for the defined benefit pension plans are funded by contributions from members and employers, and earnings from investments. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the respective employer’s benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by state statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the PERF, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of most active plan members are based on a percentage of salary in excess of a base compensation amount ranging from zero dollars to \$863 monthly.

Required contribution rates for active plan members and employers as a percentage of payroll for the year ended June 30, 2015 were as follows:

*Members* - The member contribution rate was 6.0 or 7.0 percent of applicable member earnings for fiscal year 2015-16.

*Employers* - The employer contribution rate was 11.847 percent of applicable member earnings.

The District contributed \$2,234,330 to the plan for the fiscal year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$23,854,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The District’s proportion of the net pension liability was based on the District’s share of contributions to the pension plan relative to the contributions of all participating school Districts. At June 30, 2015, the District’s proportion was 0.162 percent, which was an decrease of 0.012 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,170,163. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,363,000	\$ -
Changes of assumptions	-	1,466,000
Net differences between projected and actual earnings on investments	-	817,000
Changes in proportion and differences between District contributions and proportionate share of contributions	266,000	-
Contributions made subsequent to measurement date	<u>2,234,330</u>	<u>-</u>
Total	<u>\$ 3,863,330</u>	<u>\$ 2,283,000</u>

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (Continued)**

\$2,234,330 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended  
June 30,

2017	\$ (267,084)
2018	\$ (267,084)
2019	\$ (267,084)
2020	\$ 148,250

Differences between expected and actual experience and changes in assumptions are amortized over a closed period equal to the average remaining service life of plan members, which is 4 years as of the June 30, 2015 measurement date. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5-year period.

Actuarial Methods and Assumptions: The total pension liability for the Plan was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2006, through June 30, 2010
Actuarial Cost Method	Entry age normal
Investment Rate of Return	7.65%
Consumer Price Inflation	2.75%
Wage Growth	Varies by entry age and service
Post-retirement Benefit Increases	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter

The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found at CalPERS' website.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (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.

<u>Asset Class</u>	<u>Long-Term* Assumed Asset Allocation</u>	<u>Expected Real Rate of Return</u>
Global Equity	51%	5.25%
Global Fixed Income	19	0.99
Inflation Sensitive	6	0.45
Private Equity	10	6.83
Real Estate	10	4.50
Infrastructure & Forestland	2	4.50
Liquidity	2	(0.55)

\* 10-year geometric average

Discount Rate: The discount rate used to measure the total pension liability was 7.65 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 Plan. The results of the crossover testing for the Plan are presented in a detailed report that can be obtained at CalPERS’ website.

The discount rate was 7.50 and 7.65 percent in the June 30, 2013 and June 30, 2014 actuarial reports, respectively.

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, CalPERS took into account both short-term and long-term market return expectations as well as the expected cash flows of the Plan. 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 Plan’s asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**NOTE 9 – NET PENSION LIABILITY – PUBLIC EMPLOYER’S RETIREMENT FUND B (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 7.65 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 (6.65 percent) or 1-percentage-point higher (8.65 percent) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
District’s proportionate share of the net pension liability	<u>\$ 38,824,000</u>	<u>\$ 23,854,000</u>	<u>\$ 11,405,000</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**NOTE 10 - CONTINGENCIES**

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management’s opinion that any required reimbursements or future revenue offsets subsequently determined will not be material.

**NOTE 11 - SUBSEQUENT EVENTS**

On October 26, 2016 the District issued 2016 General Obligation Refunding Bonds, Series A and Series B in the amounts of \$1,855,000 and \$7,085,000, respectively. The 2016 General Obligation Refunding Bonds, Series A were issued to refund a portion of the District’s outstanding 1991 Election General Obligation Refunding Bonds, 2010 Series A. The 2016 General Obligation Refunding Bonds, Series B were issued to refund a portion of the District’s outstanding 2007 General Obligation Refunding Bonds. The Bonds mature during succeeding years through August 2026. The bonds were issued at varying interest rates from 0.78% to 2.77%.

## **REQUIRED SUPPLEMENTARY INFORMATION**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2016

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Local control funding formula:				
State apportionment	\$ 83,848,629	\$ 83,731,798	\$ 82,813,845	\$ (917,953)
Local sources	<u>19,204,076</u>	<u>19,104,165</u>	<u>20,343,324</u>	<u>1,239,159</u>
Total local control funding formula	<u>103,052,705</u>	<u>102,835,963</u>	<u>103,157,169</u>	<u>321,206</u>
Federal sources	6,933,002	7,648,766	6,951,461	(697,305)
Other state sources	11,972,224	15,442,984	16,489,403	1,046,419
Other local sources	<u>5,922,397</u>	<u>7,239,840</u>	<u>8,851,251</u>	<u>1,611,411</u>
Total revenues	<u>127,880,328</u>	<u>133,167,553</u>	<u>135,449,284</u>	<u>2,281,731</u>
Expenditures:				
Current:				
Certificated salaries	57,360,120	57,405,538	56,341,793	1,063,745
Classified salaries	17,082,522	16,901,655	16,738,620	163,035
Employee benefits	25,272,438	27,309,766	27,834,904	(525,138)
Books and supplies	6,322,330	11,161,258	5,880,260	5,280,998
Contract services and operating expenditures	15,660,832	16,762,177	15,837,885	924,292
Capital outlay	6,446,114	851,928	1,368,872	(516,944)
Other outgo	173,593	598,384	274,822	323,562
Debt service:				
Interest	<u>118,973</u>	<u>118,973</u>	<u>81,065</u>	<u>37,908</u>
Total expenditures	<u>128,436,922</u>	<u>131,109,679</u>	<u>124,358,221</u>	<u>6,751,458</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(556,594)</u>	<u>2,057,874</u>	<u>11,091,063</u>	<u>9,033,189</u>
Other financing sources (uses):				
Transfers in	-	400,371	381,307	(19,064)
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Total other financing sources (uses):	<u>(200,000)</u>	<u>200,371</u>	<u>181,307</u>	<u>(19,064)</u>
Net change in fund balance	(756,594)	2,258,245	11,272,370	9,014,125
Fund balance, July 1, 2015	<u>17,841,055</u>	<u>17,841,055</u>	<u>17,841,055</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ 17,084,461</u>	<u>\$ 20,099,300</u>	<u>\$ 29,113,425</u>	<u>\$ 9,014,125</u>

See note to required supplementary information.



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
For the Year Ended June 30, 2016

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State Teachers' Retirement Plan  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.113%	0.114%
District's proportionate share of the net pension liability	\$ 66,084,000	\$ 76,636,000
State's proportionate share of the net pension liability associated with the District	<u>39,905,000</u>	<u>40,532,000</u>
Total pension liability	<u>\$ 105,989,000</u>	<u>\$ 117,168,000</u>
District's covered-employee payroll	\$ 50,369,000	\$ 52,835,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	131.20%	145.05%
Plan fiduciary net position as a percentage of the total pension liability	76.52%	74.02%

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

All years prior to 2015 are not available.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
For the Year Ended June 30, 2016

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability	0.150%	0.162%
District's proportionate share of the net pension liability	\$ 17,060,000	\$ 23,854,000
District's covered-employee payroll	\$ 15,776,000	\$ 17,916,000
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	108.14%	133.14%
Plan fiduciary net position as a percentage of the total pension liability	83.38%	79.43%

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

All years prior to 2015 are not available.

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See note to required supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
For the Year Ended June 30, 2016

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State Teachers' Retirement Plan  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 4,691,711	\$ 5,688,415
Contributions in relation to the contractually required contribution	\$ 4,691,711	\$ 5,688,415
District's covered-employee payroll	\$ 52,835,000	\$ 53,014,000
Contributions as a percentage of covered-employee payroll	8.88%	10.73%

All years prior to 2015 are not available.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
For the Year Ended June 30, 2016

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Public Employer's Retirement Fund B  
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 2,108,914	\$ 2,234,330
Contributions in relation to the contractually required contribution	\$ 2,108,914	\$ 2,234,330
District's covered-employee payroll	\$ 17,916,000	\$ 18,860,000
Contributions as a percentage of covered-employee payroll	11.77%	11.85%

All years prior to 2015 are not available.

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See note to required supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

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**NOTE 1 - PURPOSE OF SCHEDULES**

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

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

The Schedule of the District's Proportionate Share of the Net Pension Liability is presented to illustrate the elements of the District's Net Pension Liability. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

C - Schedule of the District's Contributions

The Schedule of the District's Contributions is presented to illustrate the District's required contributions relating to the pensions. There is a requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

D - Changes of benefit terms

There are no changes in benefit terms reported in the Required Supplementary Information.

E - Changes of assumptions

The discount rate for Public Employer's Retirement Fund B was 7.50 percent in 2013 and 7.65 percent in 2014. There are no changes in assumptions reported for the State Teachers' Retirement Plan.

## **SUPPLEMENTARY INFORMATION**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
ALL NON-MAJOR FUNDS  
June 30, 2016

	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
<b>ASSETS</b>							
Cash in County Treasury	\$ 1,509,902	\$ 414,872	\$ 1,380,227	\$ 7,377,138	\$ 8,374,432	\$ 41,584	\$ 19,098,155
Cash on hand and in banks	7,030	-	-	-	-	-	7,030
Cash in revolving fund	1,000	-	-	-	-	-	1,000
Collections awaiting deposit	-	-	1,144	-	-	-	1,144
Receivables	1,211,983	-	-	-	9,278	-	1,221,261
Inventory	<u>55,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,977</u>
Total assets	<u>\$ 2,785,892</u>	<u>\$ 414,872</u>	<u>\$ 1,381,371</u>	<u>\$ 7,377,138</u>	<u>\$ 8,383,710</u>	<u>\$ 41,584</u>	<u>\$ 20,384,567</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	<u>\$ 95,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,947</u>
Fund balances:							
Nonspendable	56,977	-	-	-	-	-	56,977
Restricted	<u>2,632,968</u>	<u>414,872</u>	<u>1,381,371</u>	<u>7,377,138</u>	<u>8,383,710</u>	<u>41,584</u>	<u>20,231,643</u>
Total fund balances	<u>2,689,945</u>	<u>414,872</u>	<u>1,381,371</u>	<u>7,377,138</u>	<u>8,383,710</u>	<u>41,584</u>	<u>20,288,620</u>
Total liabilities and fund balances	<u>\$ 2,785,892</u>	<u>\$ 414,872</u>	<u>\$ 1,381,371</u>	<u>\$ 7,377,138</u>	<u>\$ 8,383,710</u>	<u>\$ 41,584</u>	<u>\$ 20,384,567</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES  
 ALL NON-MAJOR FUNDS  
 For the Year Ended June 30, 2016

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total
Revenues:							
Federal sources	\$ 7,198,994	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,198,994
Other state sources	502,772	-	-	-	85,310	-	588,082
Other local sources	<u>81,319</u>	<u>1,519</u>	<u>585,702</u>	<u>52,159</u>	<u>9,022,147</u>	<u>-</u>	<u>9,742,846</u>
Total revenues	<u>7,783,085</u>	<u>1,519</u>	<u>585,702</u>	<u>52,159</u>	<u>9,107,457</u>	<u>-</u>	<u>17,529,922</u>
Expenditures:							
Current:							
Classified salaries	2,474,875	-	-	-	-	-	2,474,875
Employee benefits	1,318,040	-	-	-	-	-	1,318,040
Books and supplies	3,571,390	-	-	-	-	-	3,571,390
Contract services and operating expenditures	97,671	-	-	-	-	-	97,671
Capital outlay	15,560	-	-	-	-	-	15,560
Debt service:							
Principal retirement	-	-	-	-	3,776,030	-	3,776,030
Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,613,464</u>	<u>-</u>	<u>4,613,464</u>
Total expenditures	<u>7,477,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,389,494</u>	<u>-</u>	<u>15,867,030</u>
Excess of revenues over expenditures	305,549	1,519	585,702	52,159	717,963	-	31,734,060
Other financing sources (uses):							
Transfer in	-	200,000	-	-	-	-	200,000
Transfer out	(381,307)	-	-	-	-	-	(381,307)
Premiums	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,018,526</u>	<u>-</u>	<u>1,018,526</u>
Total other financing sources (uses)	<u>(381,307)</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>1,018,526</u>	<u>-</u>	<u>(181,307)</u>
Net change in fund balances	(75,758)	201,519	585,702	52,159	1,736,489	-	2,500,111
Fund balances, July 1, 2015	<u>2,765,703</u>	<u>213,353</u>	<u>795,669</u>	<u>7,324,979</u>	<u>6,647,221</u>	<u>\$ 41,584</u>	<u>17,788,509</u>
Fund balances, June 30, 2016	<u>\$ 2,689,945</u>	<u>\$ 414,872</u>	<u>\$ 1,381,371</u>	<u>\$ 7,377,138</u>	<u>\$ 8,383,710</u>	<u>\$ 41,584</u>	<u>\$ 20,288,620</u>



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS  
 For the Year Ended June 30, 2016

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	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2016</u>
<u>Elementary Schools</u>				
Assets:				
Cash on hand and in banks	\$ <u>182,897</u>	\$ <u>313,674</u>	\$ <u>322,563</u>	\$ <u>174,008</u>
Liabilities:				
Due to student groups	\$ <u>182,897</u>	\$ <u>313,674</u>	\$ <u>322,563</u>	\$ <u>174,008</u>
<u>Middle Schools</u>				
Assets:				
Cash on hand and in banks	\$ <u>98,101</u>	\$ <u>167,401</u>	\$ <u>149,481</u>	\$ <u>116,021</u>
Liabilities:				
Due to student groups	\$ <u>98,101</u>	\$ <u>167,401</u>	\$ <u>149,481</u>	\$ <u>116,021</u>
<u>Total - All Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ <u>280,998</u>	\$ <u>481,075</u>	\$ <u>472,044</u>	\$ <u>290,029</u>
Liabilities:				
Due to student groups	\$ <u>280,998</u>	\$ <u>481,075</u>	\$ <u>472,044</u>	\$ <u>290,029</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
ORGANIZATION  
June 30, 2016

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Alum Rock Union Elementary School District was established in 1930 under the laws of the State of California. There are fifteen elementary schools, six middle schools, and two K-8 schools serving a student population of about 11,000 students. The District occupies 11 square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Dolores Marquez	President	2016
Khanh Tran	Vice President	2018
Andres Quintero	Clerk	2018
Karen Martinez	Member	2016
Esau Ruiz Herrera	Member	2018

ADMINISTRATION

Hilaria Bauer, Ph.D.  
Superintendent

Kolvira Chheng  
Director of Fiscal Services

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
For the Year Ended June 30, 2016

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	Second Period <u>Report</u>	Audited Second Period <u>Report</u>	Annual <u>Report</u>
<b>District</b>			
Transitional Kindergarten through Third	4,514	4,517	4,519
Fourth through Sixth	3,374	3,375	3,369
Seventh and Eighth	<u>2,189</u>	<u>2,189</u>	<u>2,188</u>
ADA Totals	<u><u>10,077</u></u>	<u><u>10,081</u></u>	<u><u>10,076</u></u>
<b>Aptitud Community Academy at Goss</b>			
<u>Classroom Based:</u>			
Transitional Kindergarten through Third	230	232	232
Fourth through Sixth	154	153	153
Seventh and Eighth	<u>39</u>	<u>39</u>	<u>39</u>
ADA Totals	<u><u>423</u></u>	<u><u>424</u></u>	<u><u>424</u></u>

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See accompanying notes to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
For the Year Ended June 30, 2016

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<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>2015-16 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	46,250	180	In Compliance
Grade 1	50,400	51,325	180	In Compliance
Grade 2	50,400	51,325	180	In Compliance
Grade 3	50,400	51,325	180	In Compliance
Grade 4	54,000	54,925	180	In Compliance
Grade 5	54,000	54,925	180	In Compliance
Grade 6	54,000	54,925	180	In Compliance
Grade 7	54,000	54,925	180	In Compliance
Grade 8	54,000	54,925	180	In Compliance
<b>Aptitud Community Academy at Goss - Classroom Based</b>				
Kindergarten	34,971	53,710	180	In Compliance
Grade 1	48,960	55,510	180	In Compliance
Grade 2	48,960	55,510	180	In Compliance
Grade 3	48,960	55,510	180	In Compliance
Grade 4	52,457	59,110	180	In Compliance
Grade 5	52,457	59,110	180	In Compliance
Grade 6	52,457	59,110	180	In Compliance
Grade 7	52,457	59,110	180	In Compliance

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See accompanying notes to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
For the Year Ended June 30, 2016

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611	13379	\$ 1,754,681
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	10115	10,180
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	71,022
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Section 611	13682	128,193
84.027A	Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	14468	138,384
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Section 619	13431	<u>779</u>
	Subtotal Special Education Cluster		<u>2,103,239</u>
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	775,156
84.010	NCLB: Title I, Part B, Basic Grants Low Income and Neglected	14329	3,146,154
84.365	NCLB: Title III, Limited English Proficient (LEP) Student Program	14346	<u>641,879</u>
	Total U.S. Department of Education		<u>6,666,428</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs	13396	6,428,408
10.558	Child Nutrition: Child and Adult Care Food Program	13666	<u>862,011</u>
	Total U.S. Department of Agriculture		<u>7,290,419</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.778	Medi-Cal Billing Option	10013	<u>311,383</u>
	Total Federal Programs		<u>\$ 14,268,230</u>

See accompanying notes to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2016

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There were no audit adjustments proposed to any funds of the District.

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See accompanying notes to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
For the Year Ended June 30, 2016  
(UNAUDITED)

	(Budgeted) 2017	2016	2015	2014
<u>General Fund</u>				
Revenues and other financing sources	<u>\$131,153,127</u>	<u>\$135,830,591</u>	<u>\$116,744,145</u>	<u>\$108,187,314</u>
Expenditures	<u>138,904,694</u>	<u>124,558,221</u>	<u>114,848,011</u>	<u>105,849,489</u>
Total outgo	<u>138,904,694</u>	<u>124,558,221</u>	<u>114,848,011</u>	<u>105,849,489</u>
Change in fund balance	<u>\$ (7,751,567)</u>	<u>\$ 11,272,370</u>	<u>\$ 1,896,134</u>	<u>\$ 2,337,825</u>
Ending fund balance	<u>\$ 21,361,858</u>	<u>\$ 29,113,425</u>	<u>\$ 17,841,055</u>	<u>\$ 15,944,921</u>
Available reserves	<u>\$ 13,895,004</u>	<u>\$ 21,341,340</u>	<u>\$ 14,657,797</u>	<u>\$ 14,638,540</u>
Designated for economic uncertainties	<u>\$ 4,155,559</u>	<u>\$ 3,719,307</u>	<u>\$ 3,506,609</u>	<u>\$ 3,175,485</u>
Undesignated fund balance	<u>\$ 9,739,445</u>	<u>\$ 17,622,033</u>	<u>\$ 11,151,188</u>	<u>\$ 11,463,055</u>
Available reserves as a percentage of total outgo	<u>10.00%</u>	<u>17.13%</u>	<u>12.76%</u>	<u>10.83%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$239,163,767</u>	<u>\$246,941,493</u>	<u>\$211,360,962</u>	<u>\$134,236,408</u>
Average daily attendance at P-2 (excluding charter)	<u>10,071</u>	<u>10,081</u>	<u>10,515</u>	<u>10,994</u>

The General Fund fund balance has increased by \$15,506,329 over the last three years. The fiscal year 2016-17 projects an decrease of \$7,751,567. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. The District has met compliance with this requirement.

The District incurred operating surpluses in each of the past three years and anticipates incurring an operating deficit in fiscal year 2017.

Total long-term liabilities have increased by \$112,705,085 over the past two years.

Average daily attendance has decreased by 913 over the past two years. A decrease of 10 ADA is projected for the 2016-17 fiscal year.

See accompanying notes to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
For the Year Ended June 30, 2016

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<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
Aptitud Community Academy at Goss	Included in the District financial statements, in the General Fund
KIPP Heartwood Academy	Separate Report
Alpha: Blanco Alvarado Middle	Separate Report
KIPP Prize Preparatory Academy	Separate Report
ACE Alum Rock	Separate Report

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See accompanying notes to supplementary information.



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
June 30, 2016

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**NOTE 1 - PURPOSE OF SCHEDULES**

**A - Schedule of Average Daily Attendance**

Average daily attendance 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.

**B - Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

**C - Schedule of Expenditure of Federal Awards**

The Schedule of Expenditure of Federal Awards includes the federal award activity of Alum Rock Union Elementary School District, and is presented on the 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). Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, Cost Principles for Educational Institutions or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2016.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 14,150,455
Less: Child Nutrition: Child and Adult Care Food Program revenues not spent	10.558	(187,937)
Child Nutrition: Summer Food Service Program Operations revenues not spent	10.559	(65,754)
Child Nutrition: CCFP Cash in Lieu of Commodities revenues not spent	10.558	(81,226)
Add: Child Nutrition: School Programs expenditures in excess of revenues	10.555	426,342
Medi-Cal Billing Option expenditures in excess of revenues	93.778	<u>26,350</u>
Total Schedule of Expenditure of Federal Awards		<u><u>\$ 14,268,230</u></u>

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION

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**NOTE 1 - PURPOSE OF SCHEDULES (Continued)**

**D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements**

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

**E - Schedule of Financial Trends and Analysis - Unaudited**

This schedule provides trend information on District's financial condition over the past three years and its anticipated condition for the 2015-2016 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

**F - Schedule of Charter Schools**

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

**NOTE 2 - EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosures in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2016, the District did not adopt this program.

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Board of Trustees  
 Alum Rock Union Elementary School District  
 San Jose, California

**Report on Compliance with State Laws and Regulations**

We have audited Alum Rock Union Elementary School District's compliance with the types of compliance requirements described in the State of California's *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (the "Audit Guide") applicable to the state laws and regulations listed below for the year ended June 30, 2016.

<u>Description</u>	<u>Procedures Performed</u>
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratio of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General requirements	Yes
After school	Yes
Before school	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	No, see below
Immunizations	No, see below
Attendance, for charter schools	Yes
Mode of Instruction, for charter schools	Yes
Nonclassroom Based Instruction/Independent Study,	
for charter schools	No, see below
Determination of Funding for Nonclassroom Based	
Instruction, for charter schools	No, see below
Annual Instructional Minutes Classroom Based,	
for charter schools	Yes
Charter School Facility Grant Program	No, see below

(Continued)

We did not perform procedures related to Independent Study because the District's reported ADA was below the materiality level that requires testing.

We did not perform any procedures related to Continuation Education because the District does not offer this program.

The District did not offer an Early Retirement Incentive Program; therefore, we did not perform any procedures related to the Early Retirement Incentive Program.

The District does not operate a Juvenile Court Schools Program; therefore, we did not perform any procedures related to the program.

The District does not have any Middle or Early College High Schools, therefore, we did not perform any procedures related to Middle or Early College High Schools.

We did not perform any procedures related to After School Education and Safety Program, Before School, because the District does not offer this program.

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

The District submitted all required immunization assessment reports to the California Department of Public Health; therefore, we did not perform any procedures related to this requirement.

We did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study, for charter schools or Determination of Funding for Nonclassroom-Based Instruction, for charter schools because the District's charter school has no Nonclassroom-Based/Independent Study students.

We did not perform any procedures related to Charter School Facility Grant Program as the District did not expend funds in the current year.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on Alum Rock Union Elementary School District's compliance with state laws and regulations as listed above based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K12 Local Education Agencies and State Compliance Reporting* (Audit Guide). Those standards and the Audit Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Alum Rock Union Elementary School District's compliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Alum Rock Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance.

### ***Basis for Qualified Opinion on Compliance with State Laws and Regulations***

As described in Finding 2016-001 in the accompanying Schedule of Audit Findings and Questioned Costs, Alum Rock Union Elementary School District did not comply with requirements regarding Attendance Reporting. Compliance with such requirements is necessary, in our opinion, for Alum Rock Union Elementary School District to comply with the requirements applicable to the state laws and regulations applicable to Attendance Reporting.

### ***Qualified Opinion on State Laws and Regulations***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Alum Rock Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the state laws and regulations referred to above for the year ended June 30, 2016.

### ***Other Matter***

Alum Rock Union Elementary School District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Alum Rock Union Elementary School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the State of California's *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

  
Crowe Horwath LLP

Sacramento, California  
November 28, 2016

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

Board of Trustees  
Alum Rock Union Elementary 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 Alum Rock Union Elementary School District as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Alum Rock Union Elementary School District's basic financial statements, and have issued our report thereon dated November 28, 2016.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Alum Rock Union Elementary School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alum Rock Union Elementary School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Alum Rock Union Elementary 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 may exist that have not been identified.

#### **Compliance and Other Matters**

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

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(Continued)

## Purpose of this Report

The purpose of this 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 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.

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
November 28, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees  
Alum Rock Union Elementary School District  
San Jose, California

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

We have audited Alum Rock Union Elementary School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Alum Rock Union Elementary School District's major federal programs for the year ended June 30, 2016. Alum Rock Union Elementary School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Alum Rock Union Elementary School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alum Rock Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Alum Rock Union Elementary 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, 2016.

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(Continued)



## Report on Internal Control Over Compliance

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

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

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

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

*Crowe Horwath LLP*  
Crowe Horwath LLP

Sacramento, California  
November 28, 2016

## **FINDINGS AND RECOMMENDATIONS**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION I - SUMMARY OF AUDITOR'S RESULTS

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

    Material weakness(es) identified? \_\_\_\_\_ Yes      X   No

    Significant deficiency(ies) identified not considered  
    to be material weakness(es)? \_\_\_\_\_ Yes      X   None reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ Yes      X   No

**FEDERAL AWARDS**

Internal control over major programs:

    Material weakness(es) identified? \_\_\_\_\_ Yes      X   No

    Significant deficiency(ies) identified not considered  
    to be material weakness(es)? \_\_\_\_\_ Yes      X   None reported

Type of auditor's report issued on compliance for  
major programs: Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants
10.558	Child Nutrition: Child and Adult Care Food Program
84.027, 84.173, 84.027A, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A  
and Type B programs: \$      750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**STATE AWARDS**

Type of auditor's report issued on compliance for  
state programs: Qualified

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

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(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

**2016-001 STATE COMPLIANCE - ATTENDANCE REPORTING (10000)**

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 - Each LEA must develop and maintain accurate and adequate records to support attendance reported to the State.

Condition

At Meyer Elementary School two students were improperly included for a total misstatement of 2 days.

At Hubbard Elementary School one student was improperly included for a total misstatement of 1 day.

At Sheppard Middle School one student was improperly included for a total misstatement of 1 day.

Effect

The effect of this finding is an overstatement of 0.01 ADA in the kindergarten through third grade span and 0.02 ADA in the fourth through sixth grade span.

Cause

The errors were the result of clerical errors in accounting for attendance.

Fiscal Impact

No fiscal impact as the effect is less than 0.5 ADA.

Recommendation

The District should ensure attendance records are correct.

Corrective Action Plan

The District will continue to provide training to all schools sites to review the process, procedures and controls in accounting for attendance. The District will also provide one-on-one trainings as needed, and when requested by school sites. In addition, the District will continue to conduct monthly meetings with site representatives to ensure procedures are being followed.

**STATUS OF PRIOR YEAR**  
**FINDINGS AND RECOMMENDATIONS**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2016

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<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<b>2015-001</b>  <u>Condition:</u> At Chavez Elementary School one student was improperly included for a total misstatement of 1 day.  <u>Recommendation:</u> The District should ensure attendance records are correct.	Implemented.	