

**ALUM ROCK UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alum Rock Union Elementary School District (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Alum Rock Union Elementary School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vawrinck Trine Day + Co. LLP

Palo Alto, California
December 15, 2010

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

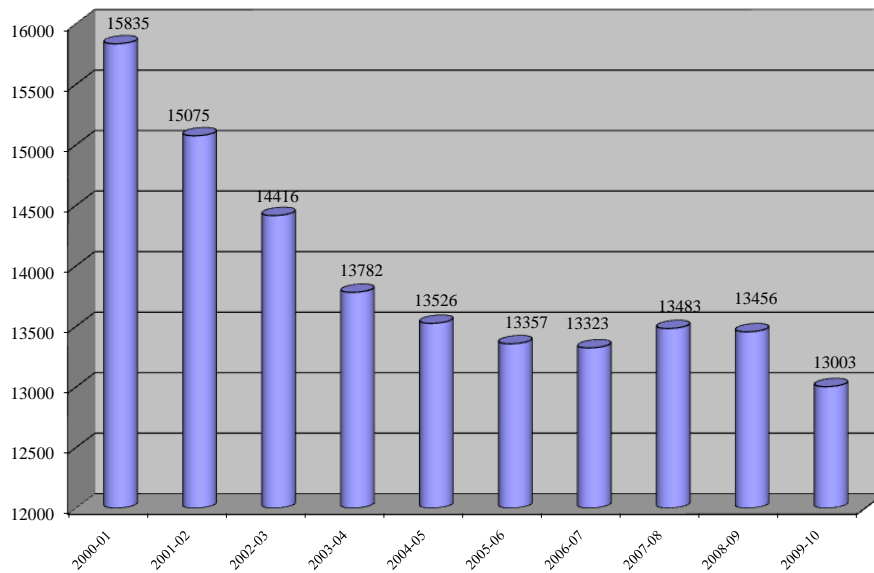
DISTRICT PROFILE

The District was organized in 1930 under the laws of the State of California. There are eighteen elementary schools, six middle schools, and three Small Schools serving a student population of about thirteen 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 60% of district's revenue is based on ADA and the revenue limit formula, it is important that the District monitor its ADA. Chart 1 below provides the District's ten year enrollment comparison.

Alum Rock Enrollment Chart



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

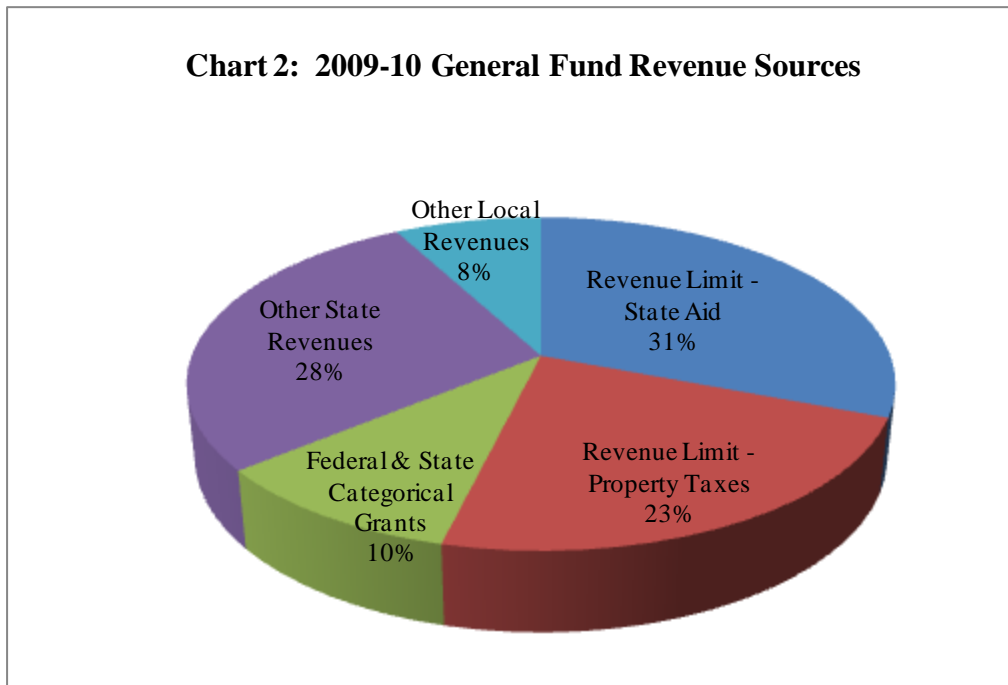
JUNE 30, 2010

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 Government-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 Revenue Limit Funding

The District receives the majority of its funding from Revenue Limit Sources. The District’s revenue limit is a direct function of the District’s ADA. The actual funding of the revenue limit comes from a combination of local property taxes 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, 2010

	June 30,		Increase
	2010	2009	(Decrease)
Beginning Fund Balance	\$ 18,652	\$ 18,966	\$ (314)
Total Revenues and Other Sources	114,060	120,997	(6,937)
Total Expenditures and Other Uses	(111,875)	(121,311)	9,436
Ending Fund Balance	\$ 20,836	\$ 18,652	\$ 2,184
Ending Available Reserves (Unappropriated)	\$ 12,464	\$ 13,571	\$ (1,108)
Base Revenue Limit per ADA	6,104	5,854	250
Funded Revenue Limit per ADA	4,731	5,142	(411)
Revenue Limit ADA	12,522	12,889	(367)

Revenues and Expenditures

Total revenues decreased by approximately \$6.9 million. The majority of this decrease was due to a decrease in State revenues.

Although the base revenue limit per ADA increased by \$250, due to the state imposed 18.355% deficit factor and additional revenue limit adjustment of -\$252.99 per ADA, the revenue limit funded was only \$4,731 per ADA; a decrease of \$411 from the 2008-09 funded revenue limit per ADA. In addition, the Revenue Limit ADA declined by 367. Both factors resulted in a decrease in Revenue Limit revenues compared to the previous year.

Available Reserves

The unrestricted portion of our general fund balance is referred to as our available reserves. The District does not have any other balances in any of its other funds that would augment available reserves. The balance on June 30, 2010 was \$20,836,348 which includes the required 3% economic uncertainties reserve of \$3,288,706. The recommended minimum State guideline for a district of our size is 3% of total expenditures.

General Fund Budgetary Highlights

Our adopted budget projected an ending balance (restricted and unrestricted) of \$13,787,854 and our final budget projected an ending balance of \$11,967,190. Our actual ending balance at year-end was \$20,836,348 – a positive variance of \$8,869,158 from our final budget projection.

The favorable expenditure variance results primarily from unexpended program funds reflected in the legally restricted ending balance not accounted for in the final budget and from outside contracted services not performed by year end.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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 *government-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 *government-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 assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position.

Over time, increases or decreases in the District’s net assets 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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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).

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 that 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 government-wide statements, we provide reconciliations between the governmental funds statements and the government-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 Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

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 are reported with governmental 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 assets and a statement of changes in fiduciary net assets. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

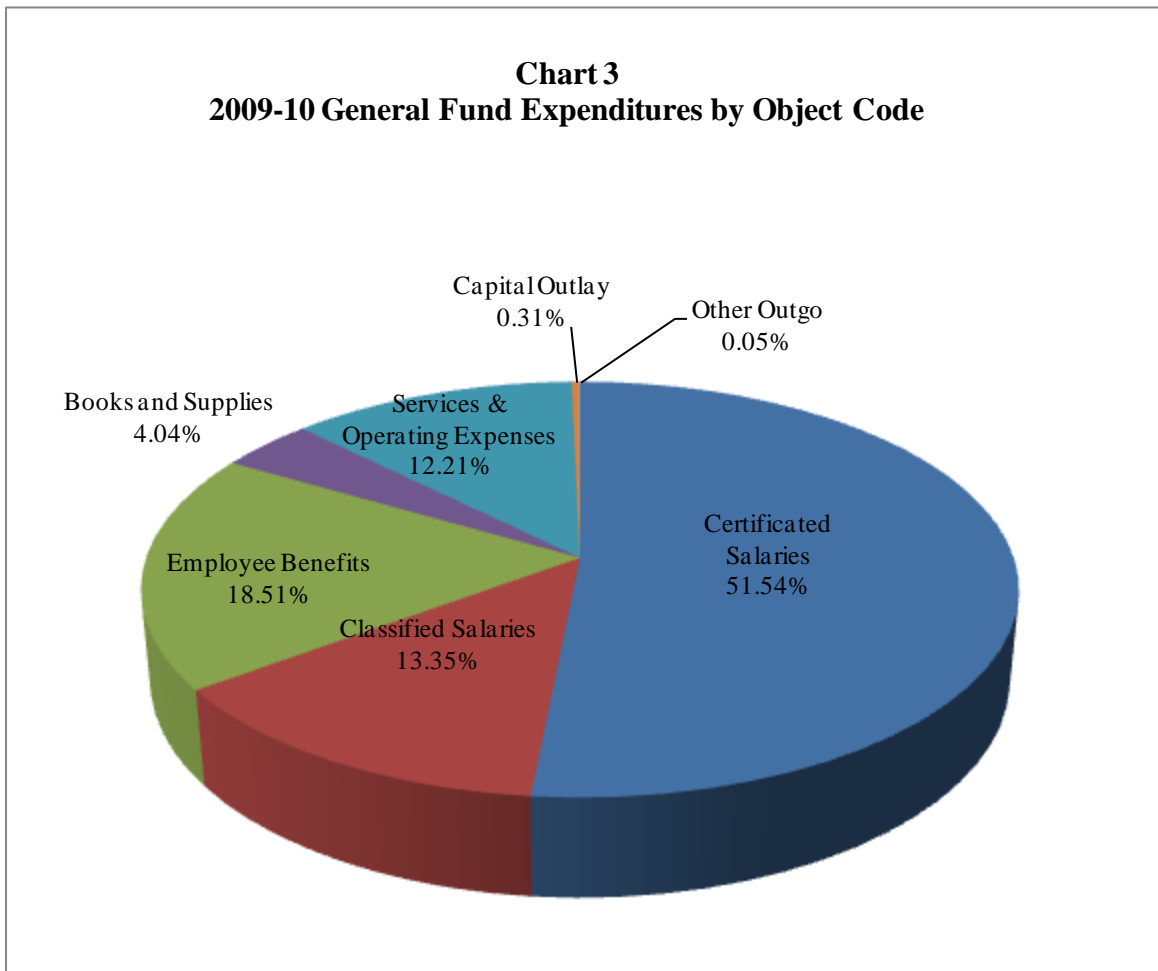
ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Governmental Activities

Charts 3 and 4 provide a breakdown of the 2010 General Fund expenditures by Object code and by Function. As is common with virtually all school districts, the majority of expenditures in the General Fund are used for salaries and benefits (approximately 83%). From a functional cost standpoint, Chart 4 shows that approximately 80% 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 63.4% of certificated salaries on classroom instruction activity.

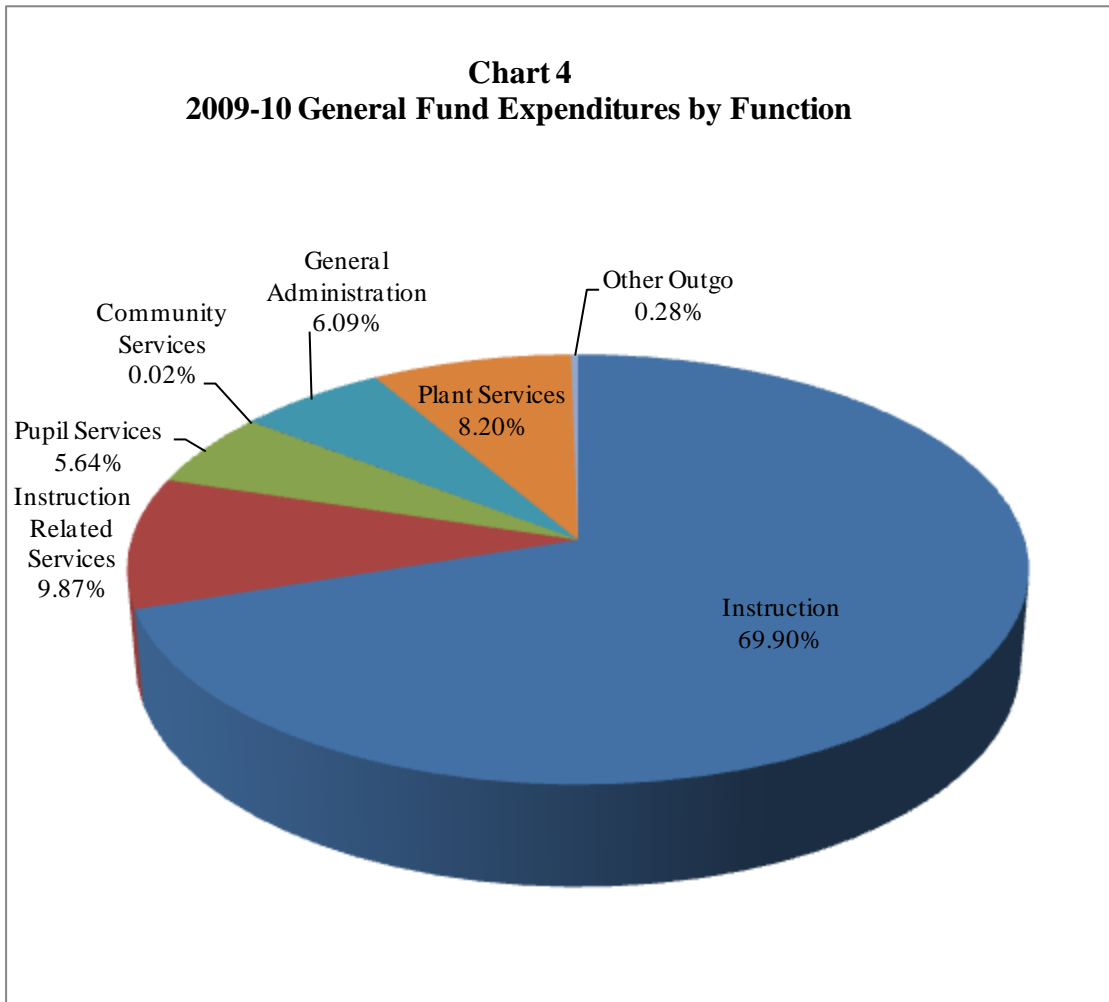


*Excludes on-behalf payments to STRS paid by the State.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010



*Excludes on-behalf payments to STRS paid by the State.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

DEBT ADMINISTRATION

Long-Term Obligations

At year-end, the District had \$106.3 million of long-term debt outstanding. This debt can be seen in Table 2 below.

	June 30,		Increase
	2010	2009	(Decrease)
General Obligation Bonds	\$ 78.8	\$ 80.8	\$ (2.0)
Certificates of Participation	24.3	-	24.3
Accumulated Vacation	0.2	0.1	0.1
Capital Leases	0.8	1.0	(0.2)
Retiree Incentive	2.4	3.2	(0.8)
Claims Liability	-	1.2	(1.2)
	\$ 106.5	\$ 86.3	\$ 20.2

FACTORS BEARING ON THE DISTRICT'S FUTURE

Since approximately 54% of the District's funding is provided by revenue limit sources, the two factors – State COLA (cost of living adjustment) and ADA (average daily attendance), which are used to calculate the revenue limit 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 State Budget continues to show less than the projected revenues for the budget year. Mid-year cuts or additional increase in the deficit factor would significantly impact the revenues for the District.
- 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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and 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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2010

	Governmental Activities
Assets	
Deposits and investments	\$ 58,270,380
Receivables	17,597,293
Prepaid expenses	851,166
Deferred charges	2,020,849
Stores inventories	300,974
Capital assets not being depreciated	12,216,894
Capital assets, net of accumulated depreciation	70,674,996
Total assets	<u>161,932,552</u>
Liabilities	
Accounts payable	11,942,566
Interest payable	1,286,947
Deferred revenue	384,671
Claim liabilities	562,839
Current portion of long-term obligations	3,216,578
Noncurrent portion of long-term obligations	103,296,832
Total liabilities	<u>120,690,433</u>
Net Assets	
Invested in capital assets, net of related debt	12,735,651
Restricted for:	
Legally restricted	7,111,485
Debt service	3,171,622
Capital projects	1,984,932
Special revenue	3,075,299
Self insurance	120,354
Unrestricted	13,042,776
Total net assets	<u>\$ 41,242,119</u>

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, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 80,321,093	\$ 4,238	\$ 16,724,472	\$ (63,592,383)
Instruction related activities:				
Supervision of instruction	3,750,841	-	1,954,887	(1,795,954)
Instructional library, media and technology	408,284	6	402,162	(6,116)
School site administration	7,298,215	13	1,217,171	(6,081,031)
Pupil services:				
Home-to-school transportation	2,733,721	-	1,402,552	(1,331,169)
Food services	6,243,690	210,680	6,294,261	261,251
All other pupil services	3,802,303	-	1,399,732	(2,402,571)
General administration:				
Data processing	1,682,490	-	-	(1,682,490)
All other general administration	4,441,227	9,752	1,518,923	(2,912,552)
Plant services	9,717,596	3,015	61,443	(9,653,138)
Community services	24,452	-	24,099	(353)
Interest on long-term obligations	4,154,436	-	-	(4,154,436)
Other outgo	26,720	-	-	(26,720)
Total governmental-type activities	\$ 124,605,068	\$ 227,704	\$ 30,999,702	(93,377,662)
General revenues and subventions:				
				28,046,095
				5,608,568
				2,333,805
				49,869,812
				275,153
				4,479
				9,667,799
			Subtotal, general revenues	95,805,711
Change in net assets				2,428,049
				38,814,070
				\$ 41,242,119

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	General Fund	Building Fund	Non Major Governmental Funds
ASSETS			
Deposits and investments	\$ 11,270,433	\$ 36,771,311	\$ 9,080,103
Receivables	16,551,435	2,500	1,043,358
Due from other funds	364,837	-	-
Stores inventories	-	-	300,974
Total assets	\$ 28,186,705	\$ 36,773,811	\$ 10,424,435
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,965,686	\$ 3,119,576	\$ 905,635
Deferred revenue	384,671	-	-
Total liabilities	7,350,357	3,119,576	905,635
Fund Balances:			
Reserved for:			
Legally restricted balances	5,070,636	-	-
Other reservations	20,000	-	301,974
Unreserved:			
Designated	3,288,884	-	-
Undesignated, reported in:			
General fund	12,456,828	-	-
Special revenue funds	-	-	2,773,325
Debt service funds	-	-	4,458,569
Capital projects funds	-	33,654,235	1,984,932
Total fund balance	20,836,348	33,654,235	9,518,800
Total Liabilities and Fund Balances	\$ 28,186,705	\$ 36,773,811	\$ 10,424,435

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

**Total
Governmental
Funds**

\$	57,121,847
	17,597,293
	364,837
	300,974
\$	<u>75,384,951</u>

\$	10,990,897
	384,671
	<u>11,375,568</u>

5,070,636
321,974

3,288,884

12,456,828
2,773,325
4,458,569
35,639,167

<u>64,009,383</u>

\$	<u>75,384,951</u>
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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2010**

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

Total Fund Balance - Governmental Funds	\$ 64,009,383
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 173,347,177
Accumulated depreciation is	<u>(90,455,287)</u>
	82,891,890
In governmental funds, accrued interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, accrued interest on long-term debt is recognized as it accrues.	(1,286,947)
In the governmental funds, costs relating to the issuance of debt are recognized when they are paid. On the government-wide statements, cost of issuance are recorded as a prepaid expense at the net amortized cost on the statement of net assets.	2,020,849
An internal service fund is used by the District's management to charge the costs of the medical, vision, and dental self insurance programs to the individuals funds. The assets and liabilities of the internal service fund are included with governmental activities on the government-wide financial statements.	120,354
Long-term liabilities at year end consist of:	
Bonds payable	80,878,245
Unamortized bond premium	2,031,557
Unamortized bond discount	(41,048)
Unamortized defeasance costs	(4,082,127)
Certificates of participation	28,000,000
Unamortized discounts on certificates of participation	(3,734,500)
Compensated absences (vacations)	246,684
Capital leases payable	758,347
Retiree incentive plan	2,456,252
	<u>(106,513,410)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 41,242,119</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Building Fund	Nonmajor Governmental Funds
REVENUES			
Revenue limit sources	\$ 61,392,576	\$ -	\$ -
Federal sources	11,679,031	-	5,953,707
Other state sources	31,986,034	-	553,756
Other local sources	9,002,050	196,103	6,197,712
Total Revenues	<u>114,059,691</u>	<u>196,103</u>	<u>12,705,175</u>
EXPENDITURES			
Current			
Instruction	78,198,363	-	-
Instruction related activities:			
Supervision of instruction	3,614,819	-	-
Instructional library, media and technology	393,478	-	-
School site administration	7,033,549	-	-
Pupil Services:			
Home-to school transportation	2,634,584	-	-
Food services	10,927	-	6,006,339
All other pupil services	3,664,414	-	-
General administration:			
Data processing	1,621,475	-	-
All other general administration	5,193,512	-	267,354
Plant services	8,582,168	375,886	10,996
Facility acquisition and construction	586,072	18,490,813	2,594,264
Community services	23,565	-	-
Other outgo	26,720	-	-
Debt service			
Principal	205,262	-	2,590,906
Interest and other	86,537	-	3,666,834
Total Expenditures	<u>111,875,445</u>	<u>18,866,699</u>	<u>15,136,693</u>
Excess (deficiency) of revenues over expenditures	<u>2,184,246</u>	<u>(18,670,596)</u>	<u>(2,431,518)</u>
Other Financing Sources (Uses):			
Other sources	-	23,685,500	-
NET CHANGE IN FUND BALANCES	2,184,246	5,014,904	(2,431,518)
Fund Balance - Beginning	18,652,102	28,639,331	11,950,318
Fund Balance - Ending	<u>\$ 20,836,348</u>	<u>\$ 33,654,235</u>	<u>\$ 9,518,800</u>

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

Total Governmental Funds	
\$	61,392,576
	17,632,738
	32,539,790
	15,395,865
	<u>126,960,969</u>
	78,198,363
	3,614,819
	393,478
	7,033,549
	2,634,584
	6,017,266
	3,664,414
	1,621,475
	5,460,866
	8,969,050
	21,671,149
	23,565
	26,720
	2,796,168
	3,753,371
	<u>145,878,837</u>
	<u>(18,917,868)</u>
	<u>23,685,500</u>
	4,767,632
	59,241,751
\$	<u><u>64,009,383</u></u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

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

Total Net Change in Fund Balances - Governmental Funds	\$ 4,767,632
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>	
Capital outlays	21,260,100
Depreciation expense	<u>(4,341,848)</u>
	16,918,252
<p>Accreted interest on capital appreciation bonds does not require the use of current financial resources, and thus is not recorded in the governmental funds. In the statement of activities, however, accreted interest expense is recognized in the government-wide statements as the interest accrues.</p>	
	(229,432)
<p>Proceeds from the issuance of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not impact the statement of activities</p>	
	(13,600,000)
<p>Payment of principal of defeased bonds is recognized as expenditure in the governmental funds but reduces the long-term debt on the statement of net assets and does not impact the statement of activities.</p>	
	13,828,263
<p>Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.</p>	
	2,845,001
<p>Premiums received from the sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.</p>	
	(887,609)
<p>Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds.</p>	
	72,148
<p>Amortization of bond discount is an expense in the statement of activities, but is not recognized in the governmental funds.</p>	
	(4,205)
<p>New debt defeance cost related to the issuance of the new bonds is not recognized in the governmental funds. In the governmental-wide statement, it is capitalized and amortized over the life of the bonds.</p>	
	316,279
<p>Amortization of defeasance cost of bonds is not recognized in the governmental funds, but it is recorded as a deferred charge and amortized to operations in the government-wide financial statements.</p>	
	(329,281)

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Proceeds received from sale of certificates of participation is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.	(28,000,000)
Discount paid for the sale of COPs is an expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	3,734,500
Amortization of cost of issuance of bonds is not recognized in the governmental funds, but it is recorded as a prepaid expense and amortized to operations in the government-wide financial statements.	(77,656)
Payment of costs for the issuance of bonds is an expenditure in the governmental funds, but is recorded as a deferred charge and amortized on the statement of net assets over the life of the bond.	923,067
In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). In the current year vacation earned exceeded vacation used by \$117,092.	(117,092)
Payments for the supplemental retiree incentive plan is an expenditure in the governmental funds, but it reduces long term liabilities in the statement of net assets and does not affect the statement of activities.	735,288
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	205,262
The District recognized its claims liability on the proprietary financial statements in the current year. Accordingly, claims liabilities were removed from the long-term debt and recognized as a liability on the internal service fund. The net increase (decrease) in net assets of the internal service fund includes the recognition of the claims liability as noted below. The claims liabilities that were removed from the long-term debt amounted to:	1,221,864
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(14,586)
An internal service fund is used by the District's management to charge the costs of medical, vision, and dental insurance programs to the individuals funds. The net revenue of the internal service fund is reported with the governmental activities.	120,354
Change in Net Assets of Governmental Activities	\$ 2,428,049

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 1,148,533
Prepaid expenses	851,166
Total Current Assets	<u>1,999,699</u>
LIABILITIES	
Current Liabilities	
Accounts payable	951,669
Due to other funds	364,837
Claim Liabilities	562,839
Total Current Liabilities	<u>1,879,345</u>
NET ASSETS	
Unrestricted	120,354
Total Net Assets	<u>\$ 120,354</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Governmental Activities - Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 120,354
Net increase in cash and cash equivalents	120,354
Cash and cash equivalents - Beginning	-
Cash and cash equivalents - Ending	<u>\$ 120,354</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 120,354
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 120,354</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2010

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 272,288
Total assets	<u>\$ 272,288</u>
LIABILITIES	
Accounts payable	\$ 37,106
Due to student groups	235,182
Total liabilities	<u>\$ 272,288</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Alum Rock Union Elementary School District (the District) was organized in 1930 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades kindergarten through eight, as mandated by the State and/or Federal agencies. The District operates eighteen elementary schools, six middle schools, and three new small autonomous schools.

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

Component Units

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

Basis of Presentation - Fund Accounting

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Governmental Funds

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

Major Funds

General Fund

The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Building Fund

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

Non-Major Governmental Funds

Special Revenue Funds

The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Cafeteria Fund

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

Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Debt Service Funds

The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

Bond Interest and Redemption Fund

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

Tax Override Fund

The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Capital Projects Funds

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

Capital Facilities Fund

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

County School Facilities Fund

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

Special Reserve Fund

The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Fund

Internal service funds may be used to account for any activity for which services are provided to other funds of the District on a cost reimbursement basis. The District operates a worker's compensation, medical dental, and vision programs that are accounted for in an internal service fund.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of most private sector companies, but differs from the manner in which governmental fund financial statements are prepared.

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

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

Fiduciary Funds

Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on general long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Deposits and Investments

The District's deposits and investments include cash on hand, demand deposits, and investments in treasury pools. Investments in treasury pools are reported at amortized cost, which approximates fair market value.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Stores Inventories

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 35 years; improvements, 10 to 20 years; equipment, 2 to 10 years.

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources.

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and Certificates of Participation payable, capital leases, and long-term loans are not recognized as liabilities in the fund financial statements. Long-term obligations are disclosed as such in the footnotes to the financial statements. Proceeds from long-term debt financing are recorded as revenue in governmental funds and the subsequent repayment of debt, both principal and interest, is recorded as an expenditure of the fund at the time of payment. Interest on long-term debt is not accrued as a liability in governmental funds.

Deferred Issuance Costs, Defeasance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, issuance costs as well as defeasance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories and legally restricted grants and entitlements.

Net Assets

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$	57,121,847
Proprietary activities		1,148,533
Fiduciary funds		272,288
Total Deposits and Investments	\$	<u>58,542,668</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$	666,958
Cash in revolving		21,000
Investments		57,854,710
Total Deposits and Investments	\$	<u>58,542,668</u>

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized 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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its fund in the County Treasurer Pool.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Cost	Fair Value	Weighted Average Maturity In Years
County Pool	\$ 34,169,210	\$ 34,331,514	326 days
Money Market	23,685,500	23,685,500	Not Applicable
Total	\$ 57,854,710	\$ 58,017,014	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool is not rated as of June 30, 2010. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Rating as of Year End	
		AA	Unrated
County Pooled Investment Fund	\$ 34,331,514	-	\$ 34,331,514
Money Market	23,685,500	23,685,500	-
Total	\$ 58,017,014	\$ 23,685,500	\$ 34,331,514

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2010, approximately \$161,691 of the District's bank balance of \$434,978 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 3 – RECEIVABLES

Receivables at June 30, 2010, consisted of the following:

	<u>General</u>	<u>Building Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Federal Government				
Categorical aid	\$ 2,627,604	\$ -	\$ 987,241	\$ 3,614,845
State Government				
Apportionment	7,433,505	-	-	7,433,505
Categorical aid	2,893,428	-	51,329	2,944,757
Lottery	742,740	-	-	742,740
Local Government				
Interest	74,265	-	-	74,265
Other Local Sources	2,779,893	2,500	4,788	2,787,181
Total	<u>\$ 16,551,435</u>	<u>\$ 2,500</u>	<u>\$ 1,043,358</u>	<u>\$ 17,597,293</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Construction in Progress	5,131,252	21,074,543	16,397,579	9,808,216
Total Capital Assets not being depreciated	7,539,930	21,074,543	16,397,579	12,216,894
Capital Assets being depreciated:				
Land Improvements	24,618,249	11,478,666	-	36,096,915
Buildings and Improvements	113,682,361	4,918,913	-	118,601,274
Furniture and Equipment	6,246,537	185,557	-	6,432,094
Total Capital Assets being depreciated	144,547,147	16,583,136	-	161,130,283
Total Capital Assets	152,087,077	37,657,679	16,397,579	173,347,177
Less Accumulated Depreciation:				
Land Improvements	20,628,517	715,284	-	21,343,801
Buildings and Improvements	61,163,557	3,334,583	-	64,498,140
Furniture and Equipment	4,321,365	291,981	-	4,613,346
Total Accumulated Depreciation	86,113,439	4,341,848	-	90,455,287
Governmental Activities Capital Assets, Net	\$ 65,973,638	\$ 33,315,831	\$ 16,397,579	\$ 82,891,890

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

Governmental Activities	
Instruction	\$ 2,858,018
Supervision of instruction	136,022
Instructional library, media, and technology	14,806
School site administration	264,666
Home-to-school transportation	99,137
Food services	226,424
All other pupil services	137,889
Data processing	61,015
All other general administration	205,487
Community services	887
Plant maintenance and operations	337,497
Total Depreciation Expense Governmental Activities	\$ 4,341,848

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds are as follows:

		Due From
		General
Due To	Self Insurance	\$ 364,837

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

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General	Building Fund	Nonmajor Governmental Funds	Total	Proprietary Fund
Vendor payables	\$ 2,300,219	\$ 3,090,762	\$ 685,169	\$ 6,076,150	\$ 951,669
Salaries and benefits	4,665,467	28,814	220,466	4,914,747	-
Total	\$ 6,965,686	\$ 3,119,576	\$ 905,635	\$ 10,990,897	\$ 951,669

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General
Federal financial assistance	\$ 384,671

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 83,722,077	\$ 13,829,432	\$ 16,673,264	\$ 80,878,245	\$ 2,760,000
Premium	1,216,096	887,609	72,148	2,031,557	72,148
Discount	(45,253)	-	(4,205)	(41,048)	(4,205)
Defeasance costs	(4,095,129)	(316,279)	(329,281)	(4,082,127)	(329,281)
Certificates of participation	-	28,000,000	-	28,000,000	-
Discount	-	(3,734,500)	-	(3,734,500)	(233,406)
Accumulated vacation - net	129,592	117,092	-	246,684	-
Capital leases	963,609	-	205,262	758,347	216,034
Retiree incentive plan	3,191,540	-	735,288	2,456,252	735,288
Self insurance plan	1,221,864	-	1,221,864	-	-
	<u>\$ 86,349,649</u>	<u>\$ 38,783,354</u>	<u>\$ 18,574,340</u>	<u>\$ 106,513,410</u>	<u>\$ 3,216,578</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Payments for the certificates of participation are made by the COP Debt Service Fund via transfers from the General Fund. The accrued vacation and retiree incentive plan will be paid by the fund for which the employee worked. Payments for capital leases are made by the General Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Accreted/ Issued	Redeemed	Bonds Outstanding as of June 30, 2010
1998	09/01/18	4.65-5.40%	3,757,782	\$ 6,666,749	\$ 116,515	\$ 6,783,264	\$ -
2002	09/01/26	4.00-7.00%	15,025,000	7,945,000	-	7,945,000	-
2003	09/01/26	2.25-3.70%	6,045,000	5,640,000	-	60,000	5,580,000
2005	09/01/21	3.00-4.25%	20,090,000	15,105,000	-	1,825,000	13,280,000
2007	09/21/26	4.30-5.00%	9,665,000	9,365,000	-	-	9,365,000
2009	8/1/2033	3.00-5.25%	39,000,328	39,000,328	112,917	60,000	39,053,245
2010	9/1/2026	3.00-5.00%	13,600,000	-	13,600,000	-	13,600,000
				<u>\$83,722,077</u>	<u>\$13,829,432</u>	<u>\$16,673,264</u>	<u>\$ 80,878,245</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Debt Service Requirements to Maturity

The bonds mature through 2034 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 2,760,000	\$ 3,432,515	\$ 6,192,515
2012	2,386,663	3,393,216	5,779,879
2013	3,423,425	3,300,617	6,724,042
2014	2,932,579	3,260,284	6,192,863
2015	3,158,476	1,623,918	4,782,394
2016-2020	18,319,185	13,886,932	32,206,117
2021-2025	15,655,000	9,756,695	25,411,695
2026-2030	15,535,000	6,061,008	21,596,008
2031-2034	16,595,000	1,762,375	18,357,375
Total	<u>80,765,328</u>	<u>\$ 46,477,560</u>	<u>\$ 127,242,888</u>
Accretion to date	112,917		
	<u>\$ 80,878,245</u>		

Certificates of Participation

In May 2010 the District issued certificates of participation in the amount of \$25,000,000 with an interest rate of 5.47 percent and maturity date of June 2026. In June 2010 the District issued certificates of participation in the amount of \$3,000,000 with an interest rate of 5.15 percent and maturity date of June 2015.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 1,522,000	\$ 1,522,000
2012	-	1,522,000	1,522,000
2013	-	1,522,000	1,522,000
2014	-	1,522,000	1,522,000
2015	3,000,000	1,522,000	4,522,000
2016-2020	-	1,367,500	1,367,500
2021-2025	-	1,367,500	1,367,500
2026	25,000,000	1,367,500	26,367,500
	<u>\$ 28,000,000</u>	<u>\$ 11,712,500</u>	<u>\$ 39,712,500</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Capital Leases

The District's liability on capital leases is summarized below:

	<u>Equipment</u>
Balance, July 1, 2009	\$ 963,609
Payments	205,262
Balance, June 30, 2010	<u>\$ 758,347</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2011	\$ 245,932
2012	245,933
2013	245,932
2014	<u>77,009</u>
Total	814,806
Less: Amount Representing Interest	(56,459)
Present Value of Minimum Lease Payments	<u>\$ 758,347</u>

Supplemental Early Retirement Plan (SERP)

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 shown below:

<u>Year Ending June 30,</u>	<u>SERP Payment</u>
2011	\$ 735,288
2012	735,288
2013	735,288
2014	<u>250,388</u>
Total	<u>\$ 2,456,252</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building Fund	Nonmajor Governmental Funds	Total
Reserved				
Revolving cash	\$ 20,000	\$ -	\$ 1,000	\$ 21,000
Stores inventory	-	-	300,974	300,974
Restricted programs	5,070,636	-	-	5,070,636
Total Reserved	<u>5,090,636</u>	<u>-</u>	<u>301,974</u>	<u>5,392,610</u>
Unreserved				
Designated				
Economic uncertainties	3,288,884	-	-	3,288,884
Undesignated	12,456,828	33,654,235	9,216,826	55,327,889
Total Unreserved	<u>15,745,712</u>	<u>33,654,235</u>	<u>9,216,826</u>	<u>58,616,773</u>
Total	<u>\$ 20,836,348</u>	<u>\$ 33,654,235</u>	<u>\$ 9,518,800</u>	<u>\$ 64,009,383</u>

NOTE 10 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District contracted with Coregis Insurance Company for property and liability insurance coverage and The Hartford Insurance Company for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

Workers' Compensation

For fiscal year 2010, the District participated in the Schools Excess Liability Fund (SELF), an insurance purchasing pool. The intent of the SELF is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SELF. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SELF. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SELF. Participation in the SELF is limited to districts that can meet the SELF selection criteria.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Employee Medical Benefits

The District buys medical coverage for their employees from insurance carriers. However, for certain medical plans, the District provides third party administrator self-insured medical benefits with rates set through an annual calculation process facilitated by the District's broker, Keenan and associates. The employees' contribution for medical benefits is deducted from their monthly payroll. The District's contribution amount is calculated based on a rate set by Keenan. Those contributions are put into a common fund from which premiums and payments are made for participants.

Claim Liabilities

The District records an estimated liability for indemnity for its self-insured medical plans. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

	Medical	Dental	Vision	Total
Liability Balance, July 1, 2008	\$ 907,557	\$ 197,358	\$ 13,800	\$ 1,118,715
Claims and changes in estimates	2,228,652	1,377,076	118,808	3,724,536
Claims payments	(2,137,896)	(1,365,235)	(118,256)	(3,621,387)
Liability Balance, June 30, 2009	998,313	209,199	14,352	1,221,864
Claims and changes in estimates	1,461,343	1,444,607	111,234	3,017,184
Claims payments	(2,131,037)	(1,435,240)	(109,932)	(3,676,209)
Liability Balance, June 30, 2010	<u>\$ 328,619</u>	<u>\$ 218,566</u>	<u>\$ 15,654</u>	<u>\$ 562,839</u>
Assets available to pay claims at June 30, 2010				<u>\$ 683,193</u>

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Blvd., Sacramento, CA 95826.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$4,342,455, \$4,606,595, and \$4,803,169, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$1,641,776, \$1,694,963, and \$1,665,715, respectively, and equal 100 percent of the required contributions for each year.

A.P.P.L.E. Retirement Program Plan

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use A.P.P.L.E. as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 3.75 percent of an employee's gross earnings. An employee is required to contribute 3.75 percent of his or her gross earnings to the pension plan.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,245,969, \$2,522,303, and \$2,631,795 for fiscal years ending June 30, 2010, 2009 and 2008, respectively (4.267 percent of 09-10 annual payroll and 4,517 percent of 08-09 and 07-08 annual payrolls, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the actual amounts reported in the General Fund Budgetary Schedule.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Site improvements - Districtwide	\$ 1,222,506	08/20/10
HVAC and building construction - Linda Vista	1,731,263	08/20/10
HVAC - Lyndale Elementary	1,537,598	08/20/10
HVAC - Meyer Elementary	373,930	On Hold
New School Construction - San Antonio Elementary	2,633,991	08/20/11
Modernization projects - San Antonio Elementary	45,857	On Hold
IT Modernization - Miller Elementary	53,787	08/20/10
Site improvements - Hubbard Elementary	2,209,282	08/20/10
	<u>\$ 9,808,214</u>	

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2010.

Supplemental Employee Retirement Plan (SERP)

At June 30, 2008, the District adopted a one-time early retirement incentive program. The District has entered into contracts with certain eligible employees whereby certificated employees who have reached the age of fifty-three with at least ten years of continuous service will receive a SERP variable benefit. Depending on the employee election, payments are to be paid for a period of five to ten years to the employees. The District entered into a nonparticipating agreement whereby the District will pay to United of Omaha a defined contribution amount of \$484,900 for the next three years, totaling \$1,454,700 and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

At June 30, 2009, the District adopted a one-time early retirement incentive program. The District has entered into contracts with certain eligible employees whereby certificated employees who have reached the age of fifty-three with at least ten years of continuous service will receive a SERP variable benefit. Depending on the employee election, payments are to be paid for a period of five to ten years to the employees. The District entered into a nonparticipating agreement whereby the District will pay to United of Omaha a defined contribution amount of \$250,388 for the next four years, totaling \$1,001,552 and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

NOTE 13 - PARTICIPATION IN JOINT POWER AUTHORITIES

The District is a member of the Schools Excess Liability Fund and the Association of Low Wealth Schools joint powers authorities (JPAs). The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. Payments for legislation aid services are paid to the Association of Low Wealth Schools JPA. The relationships between the District, the pools, and the JPAs are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2010, the District made payments of \$241,839 to the Schools Excess Liability Fund.

REQUIRED SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 61,775,619	\$ 61,399,551	\$ 61,392,576	\$ (6,975)
Federal sources	12,975,649	14,426,891	11,679,031	(2,747,860)
Other state sources	26,671,780	26,843,300	29,740,065	2,896,765
Other local sources	6,376,989	6,570,462	9,002,050	2,431,588
Total Revenues¹	107,800,037	109,240,204	111,813,722	2,573,518
EXPENDITURES				
Current				
Certificated salaries	58,930,423	57,603,178	56,497,902	1,105,276
Classified salaries	14,357,125	14,483,131	14,639,155	(156,024)
Employee benefits	19,988,141	19,829,040	20,295,775	(466,735)
Books and supplies	4,789,318	6,425,393	4,429,064	1,996,329
Services and operating expenditures	13,580,350	16,431,604	13,380,643	3,050,961
Other outgo	552,764	582,476	(240,635)	823,111
Capital outlay	27,000	131,130	335,773	(204,643)
Debt service - principal	-	-	291,799	(291,799)
Total Expenditures¹	112,225,121	115,485,952	109,629,476	5,856,476
Excess (Deficiency) of Revenues Over Expenditures	(4,425,084)	(6,245,748)	2,184,246	(3,282,958)
Other Financing Sources (Uses):				
Transfers out	(439,164)	(439,164)	-	439,164
NET CHANGE IN FUND BALANCES	(4,864,248)	(6,684,912)	2,184,246	8,869,158
Fund Balance - Beginning	18,652,102	18,652,102	18,652,102	-
Fund Balance - Ending	\$ 13,787,854	\$ 11,967,190	\$ 20,836,348	\$ 8,869,158

¹ On behalf payments of \$2,245,969 are not included in the actual revenues and expenditures.

SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Basic Grants	84.010	14329	\$ 3,090,314
Title I, ARRA Basic Grants Low Income and Neglected	84.389	15005	792,629
Title I, Part B, Reading First Program	84.357	14328	85,505
Title I, Part C, Migrant Education	84.011	14326	225,249
Title I, Part B, Even Start Migrant Education	84.011	14768	26,500
Title I, Part A, Program Improvement LEA Corrective Action	84.010	14955	29,817
ARRA State Fiscal Stabilization Fund	84.394	25008	2,754,343
Special Education Cluster			
Local Assistance Entitlement	84.027	13379	2,237,705
Local Assistance Private Schools ISPs	84.027	10115	26,572
ARRA Basic Local Assistance	84.391	15003	1,736,022
Preschool Grants	84.173	13430	71,519
ARRA Preschool Grants	84.392	15000	28,590
Preschool Local Entitlement	84.027A	13682	130,955
ARRA Preschool Local Entitlement	84.391	15002	80,355
Preschool Staff Development	84.173A	13431	685
Safe and Drug Free Schools and Communities	84.186	14347	41,744
Title II, Part B, California Mathematics and Science Partnerships	84.366	14512	1,031,218
Title II, Improving Teacher Quality Local Grants	84.367	14341	618,790
Title II, Part A, Administrator Training	84.367	14344	5,370
Enhancing Education Through Technology	84.318	14334	23,490
Innovative Education Strategies	84.298A	14354	2,428
Immigrant Education Program	84.365A	14346	465,654
Title IV, Part B, 21st Century Community Learning Centers	84.287	14349	43,604
Total U.S. Department of Education			<u>13,549,058</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)			
Passed through CDE:			
Medi-Cal Billing Option	93.778	10013	216,523
Medi-Cal Administrative Activities (MAA)	93.778	10060	139,453
Total U.S. Department of Health and Human Services			<u>355,976</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch Program	10.553	13390	4,208,549
Meal Supplements	10.556	14198	300,242
Especially Needy Breakfast	10.559	13004	1,265,850
Summer Program	10.559	13004	54,743
Fresh Fruit & Vegetables	10.582	14968	124,323
Commodity Fair Market Value ^[1]	10.565	13525	404,474
Total U.S. Department of Agriculture			<u>6,358,181</u>
Total Expenditures of Federal Awards			<u>\$ 20,263,215</u>

[1] Not included on the District's financial statements.

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

ORGANIZATION

The Alum Rock Union Elementary School District was organized in 1930 under the laws of the State of California. There are eighteen elementary schools, 6 middle schools, and 3 Small Schools serving a student population of about 13,500 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

MEMBER	OFFICE	TERM EXPIRES
Patricia Potter	President	2010
Gustavo Gonzales	Vice President	2010
Dolores Marquez	Clerk	2012
Frank Chavez	Member	2010
Esau Ruiz Herrera	Member	2012

ADMINISTRATION

NAME	TITLE
Jose Manzo	Superintendent
Rebecca Wright	Assistant Superintendent, Administrative Services
Irma Manzo	Director of Fiscal Services

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2010

	Second Period Report	Audit Adjustment	Amended Second Period Report	Annual Report
ELEMENTARY				
Kindergarten	1,434	(6)	1,428	1,437
First through third	4,492	-	4,492	4,483
Fourth through sixth	3,844	-	3,844	3,820
Seventh and eighth	2,230	-	2,230	2,229
Home and hospital	4	-	4	5
Special education	419	-	419	419
Total Elementary	<u>12,423</u>	<u>(6)</u>	<u>12,417</u>	<u>12,392</u>

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2010**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2009-10	Number of Days	Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirements	Actual Minutes	Traditional Calendar	
Kindergarten	32,010	31,121	36,000	35,000	36,000	180	Complied
Grades 1-3			50,400				
Grade 1	45,380	44,119		49,000	53,325	180	Complied
Grade 2	45,380	44,119		49,000	53,325	180	Complied
Grade 3	45,380	44,119		49,000	53,325	180	Complied
Grades 4-6			54,000		-		
Grade 4	51,600	50,167		52,500	56,925	180	Complied
Grade 5	51,600	50,167		52,500	56,925	180	Complied
Grade 6	51,600	50,167		52,500	56,925	180	Complied
Grades 7-8			54,000		-		
Grade 7	51,600	50,167		52,500	56,925	180	Complied
Grade 8	51,600	50,167		52,500	56,925	180	Complied

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

Summarized below is the fund balance reconciliation between the Unaudited Actual Financial Report and the audited financial statements.

	<u>General</u>
FUND BALANCE	
Balance, June 30, 2010, Unaudited Actuals	\$ 21,027,895
Increase (Decrease) in:	
Accounts receivable	<u>(191,547)</u>
Balance, June 30, 2010, Audited Financial Statements	<u><u>\$ 20,836,348</u></u>

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) 2011 ¹	2010	2009	2008
GENERAL FUND				
Revenues	\$ 101,624,077	\$ 114,059,691	\$ 118,474,576	\$122,024,974
Other sources and transfers in	-	-	671,169	-
Total Revenues and Other Sources	101,624,077	114,059,691	119,145,745	122,024,974
Expenditures	109,900,111	111,875,445	118,788,840	125,940,676
Other uses and transfers out	-	-	332,799	1,292,677
Total Expenditures and Other Uses	109,900,111	111,875,445	119,121,639	127,233,353
INCREASE (DECREASE) IN FUND BALANCE	\$ (8,276,034)	\$ 2,184,246	\$ 24,106	\$ (5,208,379)
ENDING FUND BALANCE	\$ 12,560,314	\$ 20,836,348	\$ 18,652,102	\$ 18,627,996
AVAILABLE RESERVES²	\$ 10,251,955	\$ 15,745,712	\$ 13,571,260	\$ 13,350,699
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	9.33%	14.41%	11.40%	10.49%
LONG-TERM OBLIGATIONS	\$ 103,296,832	\$ 106,513,410	\$ 86,349,649	\$ 48,062,401
AVERAGE DAILY ATTENDANCE AT P-2	12,526	12,423	12,889	12,919

The General Fund balance has increased by \$2,208,352 over the past two years. The fiscal year 2010-2011 budget projects a decrease of \$8,276,034 (40 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past two years. The District anticipates incurring an operating deficit during the 2010-2011 fiscal year. Total long-term obligations increased by \$58,451,009 over the past two years.

Average daily attendance decreased by 496 over the past two years. Additional increase of 103 ADA is anticipated during fiscal year 2010-2011.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

³ On behalf payments of \$2,245,969, \$2,522,303, and \$2,631,795 have been excluded from the actual revenues and expenditures for the years ended June 30, 2010, 2009 and 2008, respectively.

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2010**

Name of Charter School	Included in Audit Report
KIPP Hartwood Academy	No
ACE Charter School	No

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 1,587,566	\$ 464,862	\$ 623,480
Receivables	1,043,358	-	-
Stores inventories	300,974	-	-
Total assets	\$ 2,931,898	\$ 464,862	\$ 623,480
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 321,461	\$ -	\$ 220,973
Total liabilities	321,461	-	220,973
Fund Balances:			
Reserved for:			
Other reservations	301,974	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	2,308,463	464,862	-
Debt service funds	-	-	-
Capital projects funds	-	-	402,507
Total fund balance	2,610,437	464,862	402,507
Total Liabilities and Fund Balances	\$ 2,931,898	\$ 464,862	\$ 623,480

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Tax Override Fund	Non Major Governmental Funds
\$ 1,204,405	\$ 741,221	\$ 4,416,970	\$ 41,599	\$ 9,080,103
-	-	-	-	1,043,358
-	-	-	-	300,974
<u>\$ 1,204,405</u>	<u>\$ 741,221</u>	<u>\$ 4,416,970</u>	<u>\$ 41,599</u>	<u>\$ 10,424,435</u>
\$ 108,607	\$ 254,594	\$ -	\$ -	\$ 905,635
<u>108,607</u>	<u>254,594</u>	<u>-</u>	<u>-</u>	<u>905,635</u>
-	-	-	-	301,974
-	-	-	-	2,773,325
-	-	4,416,970	41,599	4,458,569
1,095,798	486,627	-	-	1,984,932
<u>1,095,798</u>	<u>486,627</u>	<u>4,416,970</u>	<u>41,599</u>	<u>9,518,800</u>
<u>\$ 1,204,405</u>	<u>\$ 741,221</u>	<u>\$ 4,416,970</u>	<u>\$ 41,599</u>	<u>\$ 10,424,435</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 5,953,707	\$ -	\$ -
Other state sources	487,674	-	-
Other local sources	452,860	10,197	141,778
Total Revenues	6,894,241	10,197	141,778
EXPENDITURES			
Current			
Food services	6,006,339	-	-
All other general administration	267,354	-	-
Plant services	10,996	-	-
Facility acquisition and construction	-	612,687	280,304
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	6,284,689	612,687	280,304
Excess (deficiency) of revenues over expenditures	609,552	(602,490)	(138,526)
NET CHANGE IN FUND BALANCES	609,552	(602,490)	(138,526)
Fund Balance - Beginning	2,000,885	1,067,352	541,033
Fund Balance - Ending	\$ 2,610,437	\$ 464,862	\$ 402,507

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund	Tax Override Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 5,953,707
-	-	66,082	-	553,756
28,093	1,934	5,562,850	-	6,197,712
<u>28,093</u>	<u>1,934</u>	<u>5,628,932</u>	<u>-</u>	<u>12,705,175</u>
-	-	-	-	6,006,339
-	-	-	-	267,354
-	-	-	-	10,996
1,562,116	139,157	-	-	2,594,264
-	-	2,590,906	-	2,590,906
-	-	3,666,834	-	3,666,834
<u>1,562,116</u>	<u>139,157</u>	<u>6,257,740</u>	<u>-</u>	<u>15,136,693</u>
(1,534,023)	(137,223)	(628,808)	-	(2,431,518)
<u>(1,534,023)</u>	<u>(137,223)</u>	<u>(628,808)</u>	<u>-</u>	<u>(2,431,518)</u>
2,629,821	623,850	5,045,778	41,599	11,950,318
<u>\$ 1,095,798</u>	<u>\$ 486,627</u>	<u>\$ 4,416,970</u>	<u>\$ 41,599</u>	<u>\$ 9,518,800</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciliation amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA	
	Numbers	Amount
Total Federal From the Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 17,632,738
ARRA State Fiscal Stabilization Fund	84.394	2,226,003
Commodities	10.565	404,474
Total Schedule of Expenditures of Federal Awards		<u>\$ 20,263,215</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. Senate Bill 2 of the 2009-10 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instruction minutes for the fiscal years 2009-10 thru 2012-13.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES (continued)

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS



**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 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, 2010, which collectively comprise Alum Rock Union Elementary School District's basic financial statements and have issued our report thereon dated December 15, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alum Rock Union Elementary School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alum Rock Union Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alum Rock Union Elementary School District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 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.

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*.

Alum Rock Union Elementary School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Alum Rock Union Elementary School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vasinek Trine Day + Co. LLP

Palo Alto, California
December 15, 2010



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Alum Rock Union Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. Alum Rock Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Alum Rock Union Elementary School District's management. Our responsibility is to express an opinion on Alum Rock Union Elementary School District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance with those requirements.

In our opinion, Alum Rock Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Alum Rock Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Alum Rock Union Elementary School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vasinek Trime Day + Co. LLP

Palo Alto, California
December 15, 2010



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2010, and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Alum Rock Union Elementary School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Alum Rock Union Elementary School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Alum Rock Union Elementary School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Alum Rock Union Elementary School District had not complied with the laws and regulations, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Our audit does not provide a legal determination on Alum Rock Union Elementary School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vawrinek Trine Day + Co. LLP

Palo Alto, California
December 15, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A, 84.173, and 84.391-ARRA</u>	<u>Special Education Cluster (includes ARRA)</u>
<u>84.010 and 84.389-ARRA</u>	<u>Title I Basic Grant Cluster (includes ARRA)</u>
<u>84.394-ARRA</u>	<u>ARRA State Fiscal Stabilization Fund</u>
<u>84.367</u>	<u>Title II Improving Teacher Quality Local Grants</u>
<u>10.553, 10.556 and 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 607,895</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditor's report issued on compliance for State programs:	<u>Qualified</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2010-1 Code – 30000

Criteria or Specific Requirements

General best accounting practices emphasize the importance of good internal controls. Strong internal controls over associated student body (ASB) funds are especially important due to the decentralized nature of ASB cash collections and disbursements.

Condition

Mathson Middle School

- The school did not maintain adequate ticket controls for the fundraising activities.
- Receiving documents are not being kept with voucher packages.

Cureton Elementary School

- Pre-numbered receipts are not being issued for cash collections at all times.
- Procedures for refunds are not in place.

Russo Academy

- Pre-numbered receipts are not being issued for cash collections at all times.

McEntee Academy

- Pre-numbered receipts are not being issued for cash collections at all times.
- There is no deposit slips used for donations. A letter is drafted for the donations but there is no documentation that support the donations collected at the site.

Questioned Costs

Not determinable

Context

All ASB ticket sales at Mathson Middle School

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Effect

Lack of proper documentation for the ASB activities and site cash receipts exposes ASB and site receipts to a greater risk of misstatement and causes difficulty in verifying that all cash collected was deposited to the bank accounts intact.

Recommendation

We recommend that the District provide training to the sites on the importance of strengthening the internal controls over ASB funds. Fund raising activities should have proper controls. Sales summaries should indicate how many tickets were sold and the dollar amount of tickets sold. A reconciliation between how much should be collected from the sale of those tickets versus how much was collected should be performed for all major fundraisers.

District Response

The District provided training to the school sites on the week of October 18, 2010 to strengthen the internal controls over ASB funds. The District has implemented procedures to ensure that Education Codes are being followed. The District will require the use of pre-numbered tickets to account for all proceeds received from dances, concessions and events where tickets can be utilized. The District has provided pre-numbered tickets to school sites in order to reconcile deposits made to the respective ASB account to ticket sales. In addition, school sites were also given receipt books and excel ASB ledger templates, in which the school sites must document all revenue and expenditures generated from ASB activities. Especially, middle schools are required to maintain student council minutes and to keep these documents filed on site to be provided upon request.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2010-2 KINDERGARTEN CONTINUANCE (40000)

Criteria or Specific Requirements

EC Section 48011 requires a child who has completed a year of kindergarten to be promoted to first grade, unless the parent or guardian and the district agree that the child may continue in kindergarten not more than one additional school year.

A parent/guardian who agrees the child is to continue in kindergarten must sign the Kindergarten Continuance Form.

EC sections 48070-48070.5 set forth requirements for pupil promotion and retention (PPR).

Condition

Significant Control Deficiency – During our field work at the District, we obtained a list of students who were kindergarteners in the current and prior year. We requested the kindergarten continuance forms for the 22 kindergarten students found to be repeating the grade. The District could not locate continuance forms for 12 of the requested students.

Questioned Costs

We obtained the Average Daily Attendance for the 2009-2010 fiscal year for the 12 students without continuance forms and found that 6.92 ADA was claimed by the District. This finding has resulted in a questioned costs of \$34,489 based on ADA claimed for those students.

Context

During our field work, we noted the above issue. Improvements are recommended in order to strengthen internal controls over the form management and retention.

Effect

The District is required to obtain formal evidence of an agreement between the parents or guardians of the student to repeat the grade and the Administration. Without this agreement, the District may be claiming ADA for apportionment that might be disqualified by the State.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

Cause

The District did not maintain accurate records of their continuing students. The retention of the continuance forms were being held and maintained at the individual sites.

District Response

2009-10 P-2 was adjusted on October 8, 2010 to exclude the 12 students without the continuation forms. The District has implemented procedures to ensure that Board Policy and Education Codes are being followed. A Retention Policy binder has been created for principals to reference if they were considering retaining a student. The binder contains a retention timeline, Board Policy, and all required forms that need to be completed in order to retain a student. Site principals are trained that no students will be retained without following the proper procedures and without the appropriate forms on file. The binder will be updated and sent out yearly.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.