

**ALUM ROCK UNION
ELEMENTARY SCHOOL DISTRICT**
San Jose, California

FINANCIAL STATEMENTS
June 30, 2012

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

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WITH SUPPLEMENTARY INFORMATION**

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

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REPORT OF INDEPENDENT AUDITORS

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 Alum Rock Union Elementary School District, as of and for the year ended June 30, 2012, which collectively comprise Alum Rock Union Elementary School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Alum Rock Union Elementary School District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, 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 12, 2012 on our consideration of Alum Rock Union Elementary School District's internal control over financial reporting and 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule on page 39 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise Alum Rock Union Elementary School District's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The other supplemental information listed in the table of contents, except for the Schedule of Trends and Analysis, have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplemental information listed in the table of contents, except the Schedule of Financial Trends and Analysis, are fairly presented in all material respects in relation to the basic financial statements as a whole. The Schedule of Financial Trends and Analysis have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2012

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

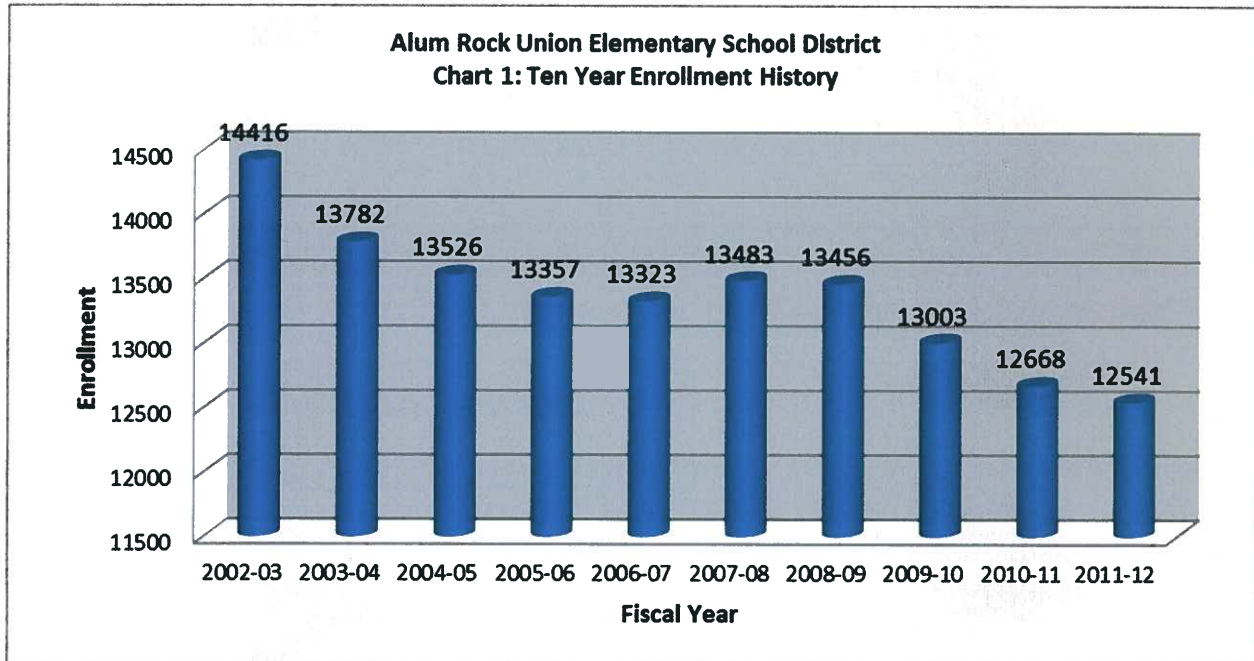
This Management's Discussion and Analysis section of Alum Rock Union Elementary School District's 2011-12 annual financial report presents management's view of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follows this section.

DISTRICT PROFILE

The District was organized in 1930 under the laws of the State of California. There are twenty elementary schools and six middle schools (total twenty-six schools including 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 59% 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 ADA comparison.



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

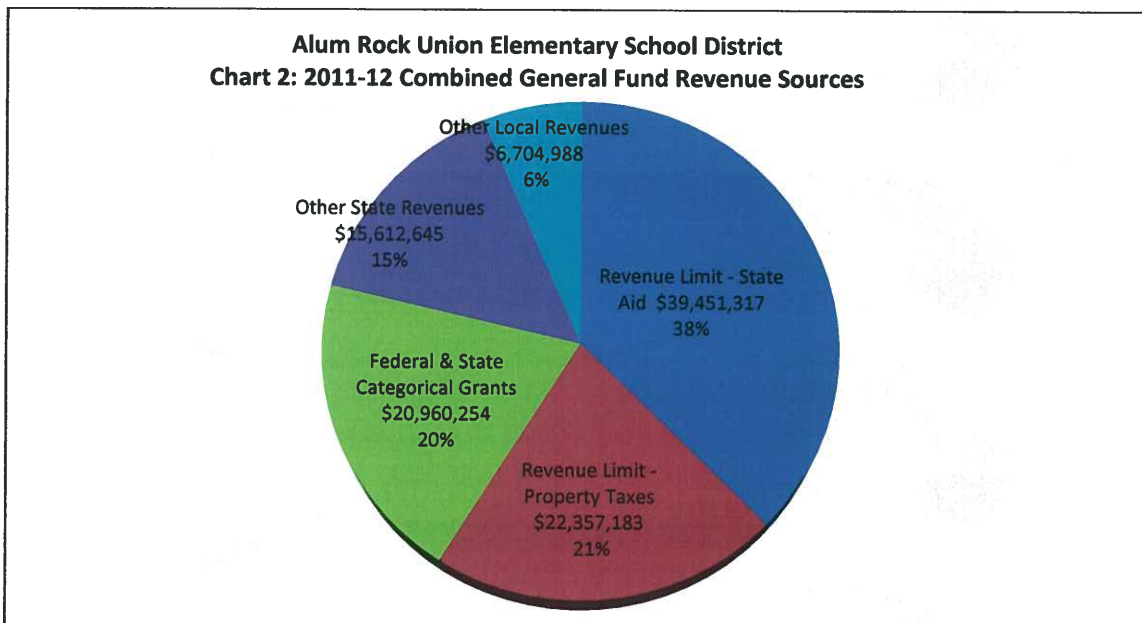
MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FINANCIAL HIGHLIGHTS

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

School District 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, 2012

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

	June 30, 2012	2011	Increases (Decreases)
Beginning Fund Balance	\$ 18,453	\$ 20,836	\$ (2,383)
Total Revenues and Other Sources	105,086	106,530	(1,444)
Total Expenditures and Other Uses	(107,391)	(108,913)	1,522
Ending Fund Balance	\$ 16,148	\$ 18,453	\$ (2,305)
Ending Available Reserves (Unappropriated)	\$ 10,611	\$ 12,639	(2,028)
Base Revenue Limit per ADA	\$ 6,217	\$ 6,080	137
Funded Revenue Limit per ADA	\$ 4,937	\$ 4,988	(52)
Revenue Limit ADA	12,303	12,474	(171)

Revenues and Expenditures

Total revenues decreased by approximately \$1.4 million. The majority of this decrease was due to 1) declining enrollment, resulted in loss of ADA, which translated to loss in revenues and 2) loss of one-time Ed Jobs Funds, which was exhausted at fiscal year ended June 30, 2012.

Although the base revenue limit per ADA increased by \$137, due to the state imposed 20.602% deficit factor, the revenue limit funded was only \$4,937 per ADA; a decrease of \$52 from the 2010-11 funded revenue limit per ADA. In addition, the Revenue Limit ADA declined by 171. 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, 2012 was \$16,148,277 which includes the required 3% economic uncertainties reserve of \$3,221,735. 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 \$9,201,712 and our final budget projected an ending balance of \$12,665,718. Our actual ending balance at year-end was \$16,148,277 – a positive variance of \$3,482,559 from our final budget projection.

The ARUSD Board of Trustees approved the 2011-12 adopted budget based on the Governor's May 2011 Proposed Budget, which included an additional reduction of \$330 per ADA. The final budget was revised to reflect the projections of income with new funding information. 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. Additionally, Special Ed revenues came in higher than projected, therefore, reduced contributions to Special Ed by nearly \$500 thousand.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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 district-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, 2012

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

Proprietary funds. When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net 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 government activities in the government-wide financial statements.

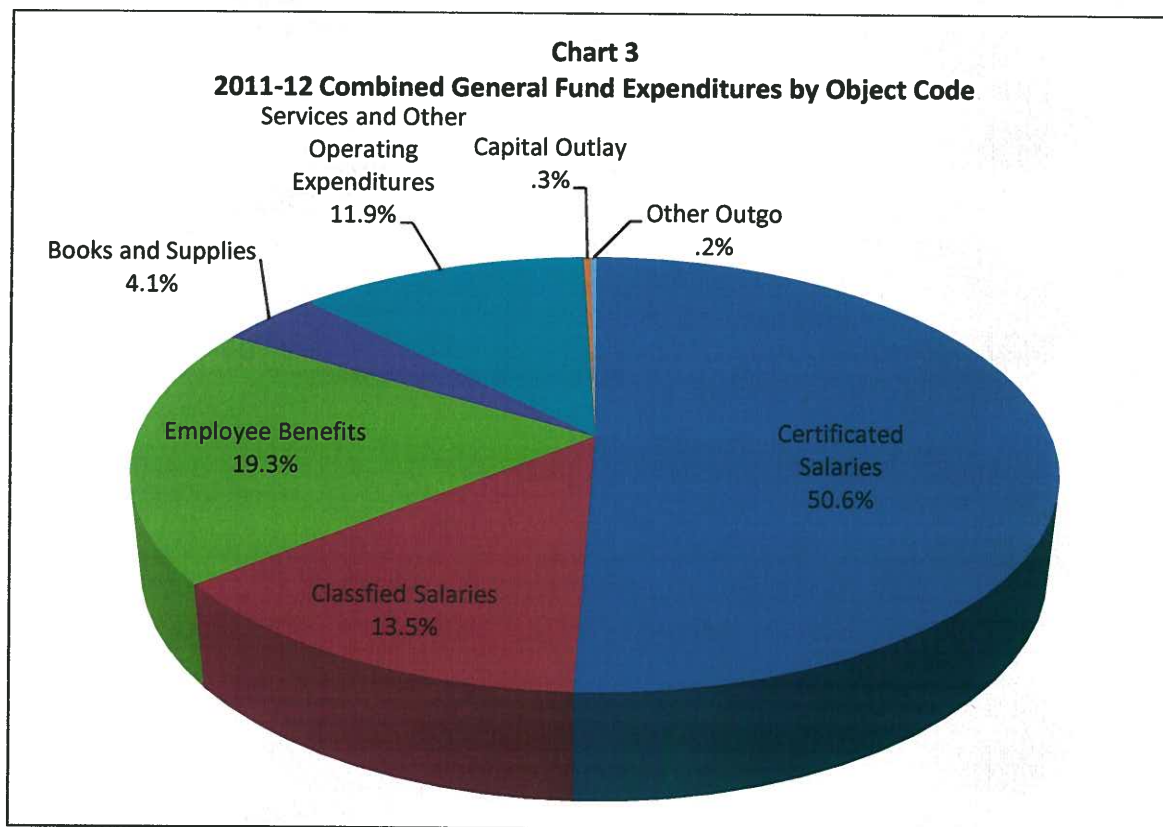
Fiduciary funds. The District is the trustee, or fiduciary, for assets that belong to others, such as the student body funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-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, 2012

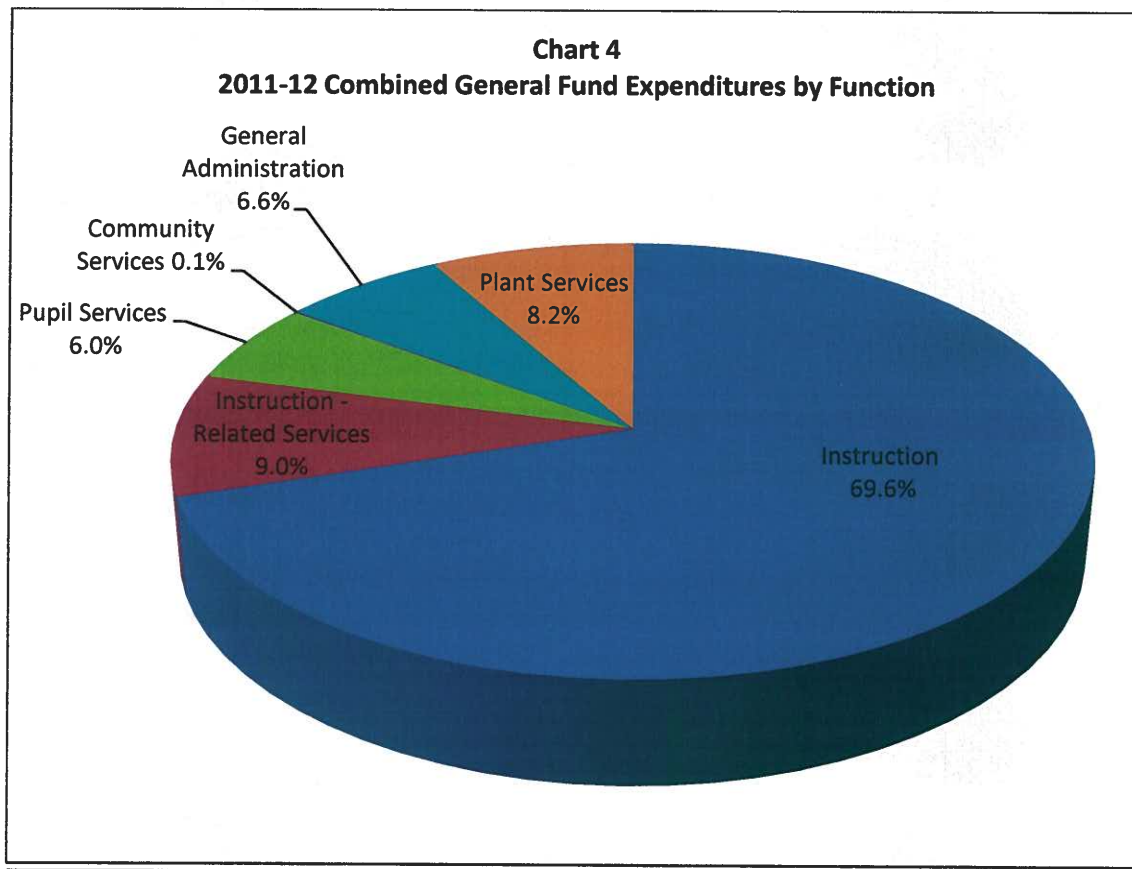
Governmental Activities

Charts 3 and 4 provide a breakdown of the 2012 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 79% 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 64.4% of certificated salaries on classroom instruction activity.



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

FACTORS BEARING ON THE DISTRICT'S FUTURE

Since approximately 59% 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. Multi-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, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Business Services at Alum Rock Union Elementary School District, 2930 Gay Avenue, San Jose, CA 95127.

BASIC FINANCIAL STATEMENTS

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 33,209,307
Receivables	24,337,024
Prepaid expenditures	7,707,090
Inventory	335,111
Other current assets	185,852
Non-depreciable capital assets (Note 4)	5,770,711
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>102,044,917</u>
Total assets	<u>173,590,012</u>
LIABILITIES	
Accounts payable	10,696,403
Claims Liability (Note 5)	587,659
TRANS payable (Note 6)	9,925,000
Deferred revenue	104,050
Long-term liabilities (Note 7):	
Due within one year	4,555,077
Due after one year	<u>101,045,861</u>
Total liabilities	<u>126,914,050</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,454,353
Restricted (Note 8)	22,251,017
Unrestricted	<u>17,970,592</u>
Total net assets	<u>\$ 46,675,962</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, 2012

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
	Expenses			Governmental Activities
Governmental activities (Note 4):				
Instruction	\$ 77,300,710	\$ 29,141	\$ 15,262,306	\$ (62,009,263)
Instruction-related services:				
Instructional supervision and administration	3,250,014		1,524,746	(1,725,268)
Instructional library, media and technology	472,387	170	485,700	13,483
School site administration	6,424,164	6	1,471,912	(4,952,246)
Pupil services:				
Home-to-school transportation	2,938,472		1,402,022	(1,536,450)
Food services	6,865,725	132,107	6,741,894	8,276
All other pupil services	3,527,964	347	964,235	(2,563,382)
General administration:				
Data processing	1,888,073			(1,888,073)
All other general administration	5,547,678	6,322	1,232,828	(4,308,528)
Plant services	9,786,119	244,624	805,726	(8,735,769)
Ancillary services	99,705		105,545	5,840
Community services				
Interest on long-term liabilities	4,152,420			(4,152,420)
Other outgo	<u>78,394</u>			<u>(78,394)</u>
Total governmental activities	<u>\$ 122,331,825</u>	<u>\$ 412,717</u>	<u>\$ 29,996,914</u>	<u>(91,922,194)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				24,672,743
Taxes levied for debt service				6,699,618
Taxes levied for other specific purposes				3,410,259
Federal and state aid not restricted to specific purposes				60,651,026
Interest and investment earnings				234,052
Interagency revenues				159,437
Miscellaneous				<u>3,624,533</u>
		Total general revenues		<u>99,451,668</u>
		Change in net assets		7,529,474
		Net assets, July 1, 2011		<u>39,146,488</u>
		Net assets, June 30, 2012		<u>\$ 46,675,962</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2012

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments:				
Cash in County Treasury	\$ 11,567,427	\$ 7,228,156	\$ 9,458,655	\$ 28,254,238
Cash on hand and in banks	604		4,692	5,296
Cash in revolving fund	20,000		1,000	21,000
Cash with Fiscal Agent			2,800,095	2,800,095
Collections awaiting deposit	2,639		1,144	3,783
Receivables	22,098,460	11,357	2,225,949	24,335,766
Inventory			335,111	335,111
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 33,689,130</u>	<u>\$ 7,239,513</u>	<u>\$ 14,826,646</u>	<u>\$ 55,755,289</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,511,803	\$ 13,596	\$ 1,758,667	\$ 9,284,066
TRANS payable	9,925,000			9,925,000
Deferred revenue	104,050			104,050
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>17,540,853</u>	<u>13,596</u>	<u>1,758,667</u>	<u>19,313,116</u>
Fund balances:				
Nonspendable	20,000		336,111	356,111
Restricted	2,295,106	7,225,917	12,731,868	22,252,891
Unassigned	13,833,171			13,833,171
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>16,148,277</u>	<u>7,225,917</u>	<u>13,067,979</u>	<u>36,442,173</u>
Total liabilities and fund balances	<u>\$ 33,689,130</u>	<u>\$ 7,239,513</u>	<u>\$ 14,826,646</u>	<u>\$ 55,755,289</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2012

Total fund balances - Governmental Funds \$ 36,442,173

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$208,769,448 and the accumulated depreciation is \$100,953,820 (Note 4). 107,815,628

Unmatured interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. (1,375,361)

In governmental funds, debt issuance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issuance costs are amortized over the life of the debt. 6,932,350

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Net assets for the Self-Insurance Fund Total: 2,462,110

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2012 consisted of (Note 7):

General Obligation Bonds	\$ (75,618,665)	
Accreted interest	(203,644)	
Certificates of Participation	(28,000,000)	
Capitalized lease obligations	(339,061)	
SERP	(1,338,059)	
Compensated absences	(101,509)	(105,600,938)

Total net assets - governmental activities \$ 46,675,962

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES**

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Revenue limit sources:				
State apportionment	\$ 39,451,317			\$ 39,451,317
Local sources	<u>22,357,183</u>			<u>22,357,183</u>
Total revenue limit	<u>61,808,500</u>			<u>61,808,500</u>
Federal sources	10,229,608		\$ 6,568,345	16,797,953
Other state sources	26,343,292	\$ 7,217,949	1,087,913	34,649,154
Other local sources	<u>6,704,985</u>	<u>16,298</u>	<u>9,054,422</u>	<u>15,775,705</u>
Total revenues	<u>105,086,385</u>	<u>7,234,247</u>	<u>16,710,680</u>	<u>129,031,312</u>
Expenditures:				
Certificated salaries	54,307,747			54,307,747
Classified salaries	14,495,143		2,159,786	16,654,929
Employee benefits	20,728,781		1,009,445	21,738,226
Books and supplies	4,455,069		3,357,754	7,812,823
Contract services and operating expenditures	12,830,521	71,629	100,989	13,003,139
Capital outlay	330,985	404,145	7,363,844	8,098,974
Other outgo	44,969			44,969
Debt service:				
Principal retirement	203,252		2,386,663	2,589,915
Interest	<u>310,416</u>		<u>3,396,734</u>	<u>3,707,150</u>
Total expenditures	<u>107,706,883</u>	<u>475,774</u>	<u>19,775,215</u>	<u>127,957,872</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,620,498)</u>	<u>6,758,473</u>	<u>(3,064,535)</u>	<u>1,073,440</u>
Other financing sources (uses):				
Operating transfers in	315,727			315,727
Operating transfers out			<u>(315,727)</u>	<u>(315,727)</u>
Total other financing sources (uses)	<u>315,727</u>		<u>(315,727)</u>	
Net change in fund balances	(2,304,771)	6,758,473	(3,380,262)	1,073,440
Fund balances, July 1, 2011	<u>18,453,048</u>	<u>467,444</u>	<u>16,448,241</u>	<u>35,368,733</u>
Fund balances, June 30, 2012	<u>\$ 16,148,277</u>	<u>\$ 7,225,917</u>	<u>\$ 13,067,979</u>	<u>\$ 36,442,173</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2012

Net change in fund balances - Total Governmental Funds \$ 1,073,440

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

Acquisition of capital assets is an expenditure in the
governmental funds, but increases capital assets in
the statement of net assets (Note 4). \$ 7,892,748

Depreciation of capital assets is an expense that is not
recorded in the governmental funds (Note 4). (5,357,022)

Donated capital assets are reported as revenue and as an
increase increase to capital assets in government-wide
financial statements (Note 4). 829,984

Repayment of principal on long-term liabilities is an
expenditure in the governmental funds, but decreases
the long-term liabilities in the statement of net assets
(Note 7). 2,589,915

Interest on long-term liabilities is recognized in the period
it is incurred, in governmental funds it is only recognized
when it is due. (93,847)

In government-wide statements, the premium or discount is
amortized as interest over the life of the debt. (322,989)

Accreted interest on capital appreciation bonds is recognized
in the period it is incurred. In governmental funds it is only
recognized when it is due (Note 7). (28,435)

Internal service funds are presumed to benefit governmental
activities. (157,654)

In the statement of activities, expenses related to the
Supplemental Employee Retirement Plan (SERP) are
measured by the amounts earned during the year. In
the governmental funds, expenditures are measured
by the amount of financial resources used (Note 7). 856,980

In the statement of activities, expenses related to compen-
sated absences are measured by the amounts earned
during the year. In the governmental funds, expenditures
are measured by the amount of financial resources used
(Note 7). 246,354 6,456,034

Change in net assets of governmental activities \$ 7,529,474

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES

June 30, 2012

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 1,763,622
Cash with Fiscal Agent	361,273
Receivables	1,258
Prepaid expenditures	774,740
Other current assets	<u>185,852</u>
 Total assets	 <u>3,086,745</u>

LIABILITIES

Liabilities:	
 Accounts payable	 36,976
Claims liabilities	<u>587,659</u>
 Total liabilities	 <u>624,635</u>

NET ASSETS

Restricted	<u><u>\$ 2,462,110</u></u>
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The accompanying notes are an integral
part of these financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET ASSETS - PROPRIETARY FUND
SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES

For the Year Ended June 30, 2012

Operating revenues:	
Self-insurance premiums	<u>\$ 16,208,771</u>
Operating expenses:	
Certificated salaries	
Classified salaries	96,611
Employee benefits	38,154
Books and supplies	6,963
Contract services	<u>16,235,306</u>
Total operating expenses	<u>16,377,034</u>
Operating loss	(168,263)
Non-operating revenue:	
Interest income	<u>10,609</u>
Change in net assets	(157,654)
Total net assets, July 1, 2011	<u>2,619,764</u>
Total net assets, June 30, 2012	<u><u>\$ 2,462,110</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES

For the Year Ended June 30, 2012

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 16,207,513
Cash received from other activities	75,862
Cash paid for employee services	(291,327)
Cash paid for claims	<u>(16,214,484)</u>
Net cash used in operating activities	(222,436)
Cash flows provided by investing activities:	
Interest income received	<u>10,609</u>
Decrease in cash and investments	(211,827)
Cash and investments, July 1, 2011	<u>2,336,722</u>
Cash and investments, June 30, 2012	<u><u>\$ 2,124,895</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (168,263)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
(Increase) decrease in:	
Receivables	(1,258)
Prepaid expenditures	(97,296)
Other current assets	204,670
(Decrease) increase in:	
Accounts payable	12,427
Claims liabilities	(16,154)
Amount due to other funds	<u>(156,562)</u>
Total adjustments	<u>(54,173)</u>
Net cash used in operating activities	<u><u>\$ (222,436)</u></u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2012

ASSETS

Cash on hand and in banks (Note 2)	<u><u>\$ 225,746</u></u>
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LIABILITIES

Due to student groups	<u><u>\$ 225,746</u></u>
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The accompanying notes are an integral
part of these financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation - Financial Statements

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

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

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

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements (Continued)

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

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories which, in aggregate, includes six fund types:

A - Governmental Fund Types

1 - General Fund:

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

2 - Special Revenue Funds:

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

3 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by the District. This classification includes the County School Facilities, Capital Facilities, Building, and Special Reserve for Capital Outlay Funds.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

4 - Debt Service Fund:

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

B - Proprietary Fund

1 - Self-Insurance Fund:

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

C - Fiduciary Fund Type

1 - Student Body Fund:

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

Basis of Accounting

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

Accrual

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Modified Accrual

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

Budgets and Budgetary Accounting

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

Inventory

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

Capital Assets

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

Compensated Absences

Compensated absences benefits in the amount of \$101,509 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and CalPERS employees, when the employee retires.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

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

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for unspent categorical program revenues represents the portion of net assets restricted to specific program expenditures. The restriction for special revenue funds represents the portion of net assets restricted for special purposes. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for debt service represents the portion of net assets available for the retirement of the liabilities. The restriction for self-insurance represents the amount restricted to pay self-insured claims.

Fund Balance Classifications

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

A - Nonspendable Fund Balance:

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

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. At June 30, 2012 the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Trustees can designate personnel with the authority to assign fund balances, however, as of June 30, 2012, no such designation has occurred.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

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

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2012, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

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

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

Eliminations and Reclassifications

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

Estimates

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2012 consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in County Treasury:		
Cash in County Treasury	\$ 30,017,860	\$ -
Collections awaiting deposit	3,783	-
Deposits:		
Cash on hand and in banks	5,296	225,746
Cash in revolving fund	21,000	-
Cash with Fiscal Agent	<u>3,161,368</u>	<u>-</u>
Total Cash	<u>\$ 33,209,307</u>	<u>\$ 225,746</u>

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Santa Clara County Treasurer's Pooled Investment Fund. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the Pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the Santa Clara County Treasury may invest in derivative securities with the State of California. However, at June 30, 2012 the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2012, the carrying amount of the District's accounts was \$252,042 and the bank balance was \$773,499, of which \$273,499 was not insured.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS (Continued)

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2012, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

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

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, the District had no concentration of credit risk.

3. INTERFUND TRANSACTIONS

Interfund Activity

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

Interfund Receivables/Payables

The district did not have any outstanding interfund receivable and payable balances as of June 30, 2012.

Interfund Transfers

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

Interfund transfers for the 2011-2012 fiscal year were to transfer \$ 315,727 from the Cafeteria Fund to the General Fund for indirect costs.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

	Balance July 1, 2011	Transfers and Additions	Transfers and Deductions	Balance June 30, 2012
Non-depreciable:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Work-in-progress	16,749,349	6,554,278	(19,941,594)	3,362,033
Depreciable:				
Buildings	136,817,295	20,926,244	-	157,743,539
Equipment	37,395,380	45,033	-	37,440,413
Improvement of sites	<u>6,676,014</u>	<u>1,138,771</u>	<u>-</u>	<u>7,814,785</u>
Totals, at cost	<u>200,046,716</u>	<u>28,664,326</u>	<u>(19,941,594)</u>	<u>208,769,448</u>
Less accumulated depreciation:				
Buildings	(68,302,886)	(4,082,839)	-	(72,385,725)
Equipment	(22,236,341)	(785,011)	-	(23,021,352)
Improvement of sites	<u>(5,057,571)</u>	<u>(489,172)</u>	<u>-</u>	<u>(5,546,743)</u>
Total accumulated depreciation	<u>(95,596,798)</u>	<u>(5,357,022)</u>	<u>-</u>	<u>100,953,820</u>
Capital assets, net	<u>\$104,449,918</u>	<u>\$ 23,307,304</u>	<u>\$(19,941,594)</u>	<u>\$107,815,628</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,461,478
Supervision of instruction	170,131
Library	20,234
Site administration	315,853
Home to school	125,297
Food services	297,672
Other pupil services	169,353
Community service	2,155
General administration	332,496
Plan services	<u>462,353</u>
Total depreciation expense	<u>\$ 5,357,022</u>

5. SELF-INSURANCE

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. SELF-INSURANCE (Continued)

The Medical claims liability of \$358,195 is based on an actuarial estimate discounted at 5%. Changes in the District's claims liabilities for the year ended June 30, 2012 were as follows:

	<u>Medical</u>	<u>Dental</u>	<u>Vision</u>	<u>Total</u>
Claims liability at July 1, 2010	\$ 328,619	\$ 218,566	\$ 15,654	\$ 562,839
Incurred claims	1,722,719	1,420,068	132,251	3,275,038
Claim payments	<u>(1,693,143)</u>	<u>(1,409,140)</u>	<u>(131,781)</u>	<u>(3,234,064)</u>
Claims liability at July 1, 2011	358,195	229,494	16,124	603,813
Incurred claims	2,692,232	185,197	(2,822)	2,874,607
Claim payments	<u>(2,692,232)</u>	<u>(185,227)</u>	<u>(13,302)</u>	<u>(2,890,761)</u>
Claims liability at June 30, 2012	<u>\$ 358,195</u>	<u>\$ 229,464</u>	<u>\$ -</u>	<u>\$ 587,659</u>

6. TAX AND REVENUE ANTICIPATION NOTES PAYABLE

On February 24, 2012, the District issued \$9,925,000 of Tax and Revenue Anticipation Notes (TRANs) maturing on October 31, 2012, with an interest rate of 2.0%, to provide for anticipated cash flow deficits from operations. The TRANs are a general obligation of the District and are payable from revenues and cash receipts generated by the District during the fiscal year ended June 30, 2012. As of June 30, 2012 the District is fully utilizing the cash from the TRANs and has recorded a liability of \$9,925,000 in the basic financial statements. The TRANs were repaid on October 31, 2012.

7. LONG-TERM LIABILITIES

General Obligation Bonds

On November 25, 2003 the District issued \$6,045,000 of General Obligation Refunding Bonds to fund prior bonds issued, Series 1995 Current Interest Bonds. The Bonds mature in varying amounts through September 2015 with interest rates from 2.25% to 3.7%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 515,000	\$ 198,535	\$ 713,535
2014	1,625,000	181,025	1,806,025
2015	1,650,000	124,150	1,774,150
2016	<u>1,750,000</u>	<u>64,750</u>	<u>1,814,750</u>
	<u>\$ 5,540,000</u>	<u>\$ 568,460</u>	<u>\$ 6,108,460</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

On December 8, 2005 the District issued \$20,090,000 of General Obligation Refunding Bonds to fund prior bonds issued including 1995 General Obligation Refunding Bonds, and 2001 General Obligation Bonds. The Bonds mature in varying amounts through September 2021 with interest rates from 3.0% to 4.25%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,810,000	\$ 329,505	\$ 2,139,505
2014	-	297,830	297,830
2015	-	297,830	297,830
2016	275,000	292,331	567,331
2017	235,000	282,132	517,132
2018-2022	<u>6,710,000</u>	<u>864,400</u>	<u>7,574,400</u>
	<u>\$ 9,030,000</u>	<u>\$ 2,364,028</u>	<u>\$ 11,394,028</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ -	\$ 429,618	\$ 429,618
2014	-	429,618	429,618
2015	-	429,618	429,618
2016	-	429,618	429,618
2017	-	429,618	429,618
2018-2022	5,435,000	1,094,705	6,529,705
2023-2027	<u>3,930,000</u>	<u>372,884</u>	<u>4,302,884</u>
	<u>\$ 9,365,000</u>	<u>\$ 3,615,679</u>	<u>\$ 12,980,679</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

On August 19, 2008 the District issued \$39,000,328 of General Obligation Bonds to finance the renovating and equipping of school facilities. The Bonds mature in varying amounts through August 2033 with interest rates from 3.0% to 5.25%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 48,425	\$ 1,893,561	\$ 1,941,986
2014	122,579	1,913,535	2,036,114
2015	193,476	1,941,809	2,135,285
2016	256,030	1,979,304	2,235,334
2017	318,485	1,939,819	2,258,304
2018-2022	3,869,670	9,343,565	13,213,235
2023-2027	8,910,000	7,567,060	16,477,060
2028-2032	16,065,000	4,480,530	20,545,530
2033-2034	<u>9,120,000</u>	<u>347,500</u>	<u>9,467,500</u>
	<u>\$ 38,903,665</u>	<u>\$ 31,406,683</u>	<u>\$ 70,310,348</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,050,000	\$ 466,076	\$ 1,516,076
2014	1,185,000	437,225	1,622,225
2015	1,315,000	407,399	1,722,399
2016	1,370,000	370,875	1,740,875
2017	3,310,000	273,201	3,583,201
2018-2022	1,630,000	858,414	2,488,414
2023-2027	<u>2,920,000</u>	<u>349,675</u>	<u>3,269,675</u>
	<u>\$ 12,780,000</u>	<u>\$ 3,162,865</u>	<u>\$ 15,942,865</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. LONG-TERM LIABILITIES (Continued)

Certificates of Participation

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

In June 2010, the District issued 2010 Series B COPs totaling \$3,000,000 for the purpose of funding the reserve fund and to pay any other miscellaneous items related to the execution and delivery of the series A COPs. The COPs bear an interest rate of 5.150% and mature through June 2015.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	-	1,367,000	1,367,000
2017	2,270,000	1,367,500	3,637,500
2018-2022	13,630,000	5,597,178	19,227,178
2023-2026	<u>9,100,000</u>	<u>1,119,983</u>	<u>10,219,983</u>
	<u>\$ 28,000,000</u>	<u>\$ 14,017,661</u>	<u>\$ 42,017,661</u>

Capitalized Lease Obligations

The District leases equipment with an original cost of \$2,432,321 and accumulated depreciation of \$2,076,388 under long-term lease purchase agreements. A summary of future minimum lease payments is as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2013	\$ 290,968
2014	<u>65,785</u>
Total	356,753
Less interest	<u>(17,692)</u>
Total Principal	<u>\$ 339,061</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. LONG-TERM LIABILITIES (Continued)

Supplemental Employee Retirement Plan

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

<u>Year Ending June 30,</u>	<u>Payments</u>
2013	\$ 856,980
2014	359,387
2015	<u>121,692</u>
Total	<u>\$ 1,338,059</u>

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 78,005,328	\$ -	\$ 2,386,663	\$ 75,618,665	\$ 3,423,425
Accreted Interest	175,209	28,435	-	203,644	-
Certificates of Participation	28,000,000	-	-	28,000,000	-
Capitalized lease obligations	542,313	-	203,252	339,061	274,672
SERP	2,195,039	-	856,980	1,338,059	856,980
Compensated absences	<u>347,863</u>	<u>-</u>	<u>246,354</u>	<u>101,509</u>	<u>-</u>
	<u>\$109,265,752</u>	<u>\$ 28,435</u>	<u>\$ 3,693,249</u>	<u>\$105,600,938</u>	<u>\$ 4,555,077</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. NET ASSETS / FUND BALANCES

Restricted net assets as of June 30, 2012 consisted of the following:

	<u>Governmental Activities</u>
Restricted for unspent categorical revenues	\$ 2,295,106
Restricted for self insurance	2,462,110
Restricted for special revenues	3,969,662
Restricted for capital projects	8,216,199
Restricted for debt service	<u>5,307,940</u>
	<u><u>\$ 22,251,017</u></u>

Fund balances, by category, at June 30, 2012 consisted of the following:

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:				
Revolving cash fund	\$ 20,000	\$ -	\$ 1,000	\$ 21,000
Stores Inventory	<u>-</u>	<u>-</u>	<u>335,111</u>	<u>335,111</u>
Subtotal nonspendable	<u>20,000</u>	<u>-</u>	<u>336,111</u>	<u>356,111</u>
Restricted:				
Unspent categorical revenues	2,295,106	-	-	2,295,106
Special revenue	-	-	3,633,551	3,633,551
Capital projects	-	7,225,917	3,790,377	11,016,294
Debt service	<u>-</u>	<u>-</u>	<u>5,307,940</u>	<u>5,307,940</u>
Subtotal restricted	<u>2,295,106</u>	<u>7,225,917</u>	<u>12,731,868</u>	<u>22,252,891</u>
Unassigned:				
Designated for economic undesignated uncertainty	3,221,735	-	-	3,221,735
Undesignated	<u>10,611,436</u>	<u>-</u>	<u>-</u>	<u>10,611,436</u>
Subtotal unassigned	<u>13,833,171</u>	<u>-</u>	<u>-</u>	<u>13,833,171</u>
Total fund balances	<u><u>\$ 16,148,277</u></u>	<u><u>\$ 7,225,917</u></u>	<u><u>\$ 13,067,979</u></u>	<u><u>\$ 36,442,173</u></u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. 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 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0% 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 2011-12 was 10.923% of annual 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, 2011 and 2012 were \$1,641,776, \$1,694,963 and \$1,411,820, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2011-12 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2010, 2011 and 2012 were \$4,242,455, \$4,606,595 and \$5,129,799, respectively, and equal 100% of the required contributions for each year.

10. CONTINGENCIES

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

Also, the District has received federal and state funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

11. SUBSEQUENT EVENTS

General Obligation Bonds

On July 9, 2012 the District issued \$12,035,000 of General Obligation Refunding Bond Series A and B to fund a portion of the District's outstanding 2003 General Obligation Refunding Bonds, a portion of its 2005 General Obligation Refunding Bonds, and to pay costs of issuing the Refunding Bonds. The Bonds mature in varying amounts through 2021 with interest rates from 0.7% to 5.0%.

REQUIRED SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2012

	<u>Budget</u>			<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Revenue limit sources:				
State apportionment	\$ 42,216,276	\$ 39,442,685	\$ 39,451,317	\$ 8,632
Local sources	<u>20,186,338</u>	<u>22,357,183</u>	<u>22,357,183</u>	
Total revenue limit	<u>62,402,614</u>	<u>61,799,868</u>	<u>61,808,500</u>	<u>8,632</u>
Federal sources	8,998,428	11,101,852	10,229,608	(872,244)
Other state sources	25,237,276	26,022,872	26,343,292	320,420
Other local sources	<u>6,359,548</u>	<u>6,795,262</u>	<u>6,704,985</u>	<u>(90,277)</u>
Total revenues	<u>102,997,866</u>	<u>105,719,854</u>	<u>105,086,385</u>	<u>(633,469)</u>
Expenditures:				
Certificated salaries	53,732,790	54,606,959	54,307,747	299,212
Classified salaries	13,983,724	14,065,020	14,495,143	(430,123)
Employee benefits	21,541,575	20,931,484	20,728,781	202,703
Books and supplies	3,620,856	6,404,439	4,455,069	1,949,370
Contract services and operating expenditures	12,574,156	14,006,937	12,830,521	1,176,416
Capital outlay	450,855	332,733	330,985	1,748
Other outgo	30,068	44,969	44,969	
Debt service:				
Principal retirement	435,678	203,252	203,252	
Interest	<u>154,500</u>	<u>310,416</u>	<u>310,416</u>	
Total expenditures	<u>106,524,202</u>	<u>110,906,209</u>	<u>107,706,883</u>	<u>3,199,326</u>
Deficiency of revenues under expenditures	(3,526,336)	(5,186,355)	(2,620,498)	2,565,857
Other financing sources (uses):				
Operating transfers in	<u>302,329</u>	<u>314,446</u>	<u>315,727</u>	<u>1,281</u>
Net change in fund balance	(3,224,007)	(4,871,909)	(2,304,771)	2,567,138
Fund balance, July 1, 2011	<u>18,453,048</u>	<u>18,453,048</u>	<u>18,453,048</u>	
Fund balance, June 30, 2012	<u>\$ 15,229,041</u>	<u>\$ 13,581,139</u>	<u>\$ 16,148,277</u>	<u>\$ 2,567,138</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
NOTE OF REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A Budgetary Comparison Schedule

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

Excess of expenditures over appropriations for the year ended June 30, 2012 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Classified salaries	\$ 430,123

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

SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2012

ASSETS

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Building Fund	Special Reserve for Capital Outlay Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total
Cash in County Treasury	\$ 1,217,751	\$ 803,751	\$ 491,754	\$ 810,408	\$ 830,637	\$ 5,262,755	\$ 41,599	\$ 9,458,655
Cash on hand and in banks	4,692							4,692
Cash in revolving fund	1,000							1,000
Cash with fiscal agent			1,144	2,800,095				2,800,095
Collections awaiting deposit		1,030	658	1,271	501,715	3,586		1,144
Accounts receivables	1,717,689							2,225,949
Inventory	335,111							335,111
Total assets	<u>\$ 3,276,243</u>	<u>\$ 804,781</u>	<u>\$ 493,556</u>	<u>\$ 3,611,774</u>	<u>\$ 1,332,352</u>	<u>\$ 5,266,341</u>	<u>\$ 41,599</u>	<u>\$ 14,826,646</u>

LIABILITIES AND
FUND BALANCES

Liabilities:								
Accounts payable	\$ 96,657	\$ 14,705	\$ 268,919	\$ 101,502	\$ 1,276,884			\$ 1,758,667
Fund balances - restricted	<u>3,179,586</u>	<u>790,076</u>	<u>224,637</u>	<u>3,510,272</u>	<u>55,468</u>	<u>\$ 5,266,341</u>	<u>\$ 41,599</u>	<u>13,067,979</u>
Total liabilities and fund balances	<u>\$ 3,276,243</u>	<u>\$ 804,781</u>	<u>\$ 493,556</u>	<u>\$ 3,611,774</u>	<u>\$ 1,332,352</u>	<u>\$ 5,266,341</u>	<u>\$ 41,599</u>	<u>\$ 14,826,646</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2012

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Building Fund	Special Reserve for Capital Outlay Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total
Revenues:								
Revenue limit sources:								
Local sources								
Federal sources	\$ 6,568,345							\$ 6,568,345
Other state sources	537,574	\$ 465,599				\$ 84,740		1,087,913
Other local sources	<u>173,624</u>	<u>5,343</u>	<u>\$ 278,257</u>	<u>\$ 51,327</u>	<u>\$ 1,759,133</u>	<u>6,786,738</u>		<u>9,054,422</u>
Total revenues	<u>7,279,543</u>	<u>470,942</u>	<u>278,257</u>	<u>51,327</u>	<u>1,759,133</u>	<u>6,871,478</u>		<u>16,710,680</u>
Expenditures:								
Certificated salaries	2,143,196			16,590				2,159,786
Classified salaries	1,008,079			1,366				1,009,445
Employee benefits	3,357,754							3,357,754
Books and supplies								
Contract services and operating expenditures	68,613			32,376				100,989
Capital outlay	32,724	613,915	521,670	3,968,655	2,226,880			7,363,844
Debt service:								
Principal retirement								
Interest								
Total expenditures	<u>6,610,366</u>	<u>613,915</u>	<u>521,670</u>	<u>4,018,987</u>	<u>2,226,880</u>	<u>5,783,397</u>		<u>19,775,215</u>
Excess (deficiency) of revenues over (under) expenditures	669,177	(142,973)	(243,413)	(3,967,660)	(467,747)	1,088,081		(3,064,535)
Other financing uses:								
Operating transfer out	<u>(315,727)</u>							<u>(315,727)</u>
Net change in fund balances	353,450	(142,973)	(243,413)	(3,967,660)	(467,747)	1,088,081		(3,380,262)
Fund balances, June 30, 2011	<u>2,826,136</u>	<u>933,049</u>	<u>468,050</u>	<u>7,477,932</u>	<u>523,215</u>	<u>4,178,260</u>	\$ 41,599	<u>16,448,241</u>
Fund balances, June 30, 2012	<u>\$ 3,179,586</u>	<u>\$ 790,076</u>	<u>\$ 224,637</u>	<u>\$ 3,510,272</u>	<u>\$ 55,468</u>	<u>\$ 5,266,341</u>	<u>\$ 41,599</u>	<u>\$ 13,067,979</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<u>Elementary Schools</u>				
Assets:				
Cash on hand and in banks	\$ 140,632	\$ 397,133	\$ (389,033)	\$ 148,732
Total assets	<u>\$ 140,632</u>	<u>\$ 397,133</u>	<u>\$ (389,033)</u>	<u>\$ 148,732</u>
Liabilities:				
Due to student groups	<u>\$ 140,632</u>	<u>\$ 397,133</u>	<u>\$ (389,033)</u>	<u>\$ 148,732</u>
<u>Middle Schools</u>				
Assets:				
Cash on hand and in banks	\$ 69,650	\$ 196,235	\$ (188,871)	\$ 77,014
Total assets	<u>\$ 69,650</u>	<u>\$ 196,235</u>	<u>\$ (188,871)</u>	<u>\$ 77,014</u>
Liabilities:				
Due to student groups	<u>\$ 69,650</u>	<u>\$ 196,235</u>	<u>\$ (188,871)</u>	<u>\$ 77,014</u>
<u>Total - All Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ 210,282	\$ 593,368	\$ (577,904)	\$ 225,746
Total assets	<u>\$ 210,282</u>	<u>\$ 593,368</u>	<u>\$ (577,904)</u>	<u>\$ 225,746</u>
Liabilities:				
Due to student groups	<u>\$ 210,282</u>	<u>\$ 593,368</u>	<u>\$ (577,904)</u>	<u>\$ 225,746</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

ORGANIZATION

June 30, 2012

Alum Rock Union Elementary School District was established in 1930 under the laws of the State of California. There are eighteen elementary schools, five middle schools, and three small schools serving a student population of about 12,668 students. The District occupies 11 square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Esau Ruiz Herrera	President	2012
Darcie Green	Vice President	2014
Dolores Marquez	Member	2012
Frank Chavez	Member	2014
Scott Pham	Member	2014

ADMINISTRATION

Stephen A. Fiss
Interim Superintendent

Laura Phan*
Assistant Superintendent of Business Services

Melina Nguyen
Director of Fiscal Services

* Effective July 10, 2012, the Linda Latasa became the Interim Assistant Superintendent of Business Services.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2012

	<u>Original Second Period Report</u>	<u>Audited Second Period Report*</u>	<u>Annual Report</u>
<u>District</u>			
Kindergarten	1,356	1,356	1,356
First through Third	4,111	4,111	4,111
Fourth through Eighth	6,169	6,169	6,169
Home and Hospital	3	3	3
Special Education	<u>391</u>	<u>392</u>	<u>392</u>
Totals	<u><u>12,030</u></u>	<u><u>12,031</u></u>	<u><u>12,031</u></u>

* The audited amount includes the revision for audit finding 2012-03 along with other District revisions.

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2012

<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>Reduced 1986-87 Minutes Require- ment</u>	<u>Statutory 1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>2010-11 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
<u>DISTRICT</u>							
Kindergarten	36,000	33,600	32,010	29,876	36,000	175	In Compliance
Grade 1	50,400	47,040	45,380	42,355	51,165	175	In Compliance
Grade 2	50,400	47,040	45,380	42,355	51,165	175	In Compliance
Grade 3	50,400	47,040	45,380	42,355	51,165	175	In Compliance
Grade 4	54,000	50,400	51,600	48,160	54,765	175	In Compliance
Grade 5	54,000	50,400	51,600	48,160	54,765	175	In Compliance
Grade 6	54,000	50,400	51,600	48,160	54,765	175	In Compliance
Grade 7	54,000	50,400	51,600	48,160	54,765	175	In Compliance
Grade 8	54,000	50,400	51,600	48,160	54,765	175	In Compliance

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Year Ended June 30, 2012

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Title I, Part A Cluster:		
84.389	NCLB: ARRA Title I, Part A, Basic Grants Low Income and Neglected	15005	\$ 15,229
84.010	NCLB: Title I, Part B, Basic Grants Low Income and Neglected	14329	<u>3,057,150</u>
	Subtotal Title I, Part A Cluster		<u>3,072,379</u>
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611	13379	2,108,067
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	10115	11,628
84.391	Special Ed: ARRA IDEA Part B, Sec 611, Local Assistance Private School ISPs	10123	24,764
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	77,073
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Section 611	13682	165,450
84.027	Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	14468	12,243
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Section 619	13431	<u>749</u>
	Subtotal Special Education Cluster		<u>2,399,974</u>
	NCLB: Title I, Part C:		
84.011	NCLB: Title I, Part C Migrant Ed/Regular	14328	207,604
84.011	NCLB: Title I, Part C, Even Start Migrant Education (MEES)	14768	<u>30,000</u>
	Subtotal NCLB: Title I		<u>237,604</u>
	NCLB: Title II		
84.367	NCLB: Title II, Part A, Administrator Training (Formerly Principal Training)	14344	6,712
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	<u>847,428</u>
	Subtotal NCLB: Title II		<u>854,140</u>

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2012

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
84.410	Education Job Fund	25152	2,347,403
84.186	NCLB: Title IV, Part A, Safe & Drug Free Schools And Communities, Formula Grants	14347	22,060
84.386	NCLB: ARRA Title II, Part D, CTAP Administration of Enhancing Education Through Technology (EETT)	15137	20,313
84.318	NCLB: Title II, Part D, CTAP Administration of Enhancing Education Through Technology (EETT)	14335	10,923
84.365	NCLB (ESEA): Title III, Limited English Proficient (LEP) Student Program	14346	927,232
84.394	ARRA: State Fiscal Stabilization Fund (SFSF)	24997	<u>507,827</u>
	Total U.S. Department of Education		<u>10,399,855</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs (NSL Sec 11)	13396	6,651,970
10.582	Child Nutrition: Fresh Fruit and Vegetable Program	14968	<u>274,123</u>
	Total U.S. Department of Agriculture		<u>6,926,093</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.778	Medi-Cal Billing Option	10013	<u>237,434</u>
	Total Federal Programs		<u>\$ 17,563,382</u>

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2012

(UNAUDITED)

	(Budgeted)			
	2012	2012	2011	2010
<u>General Fund</u>				
Revenues and other financing sources	<u>\$ 93,817,749</u>	<u>\$105,402,112</u>	<u>\$108,757,699</u>	<u>\$114,059,691</u>
Expenditures	<u>103,962,335</u>	<u>107,706,883</u>	<u>111,140,999</u>	<u>111,875,445</u>
Total outgo	<u>103,962,335</u>	<u>107,706,883</u>	<u>111,140,999</u>	<u>111,875,445</u>
Change in fund balance	<u>\$ (10,144,586)</u>	<u>\$ (2,304,771)</u>	<u>\$ (2,383,300)</u>	<u>\$ 2,184,246</u>
Ending fund balance	<u>\$ 6,003,691</u>	<u>\$ 16,148,277</u>	<u>\$ 18,453,048</u>	<u>\$ 20,836,348</u>
Available reserves	<u>\$ 4,287,554</u>	<u>\$ 13,833,171</u>	<u>\$ 15,906,226</u>	<u>\$ 15,745,712</u>
Designated for economic uncertainties	<u>\$ 3,108,369</u>	<u>\$ 3,221,735</u>	<u>\$ 3,267,386</u>	<u>\$ 3,288,884</u>
Undesignated fund balance	<u>\$ 1,179,185</u>	<u>\$ 10,611,436</u>	<u>\$ 12,638,840</u>	<u>\$ 12,456,828</u>
Available reserves as a percentage of total outgo	<u>4.12%</u>	<u>12.84%</u>	<u>14.31%</u>	<u>14.07%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$101,045,861</u>	<u>\$105,600,938</u>	<u>\$103,895,915</u>	<u>\$106,513,410</u>
Average daily attendance at P-2	<u>11,788</u>	<u>12,030</u>	<u>12,227</u>	<u>12,423</u>

The General Fund fund balance has decreased by \$2,503,825 over the last three years. The fiscal year 2012-13 projects a decrease of \$10,144,586. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. The District has met compliance with this requirement.

The District incurred operating deficits in two of the past three years and anticipates incurring an operating deficit in fiscal year 2013.

Total long-term liabilities have decreased by \$912,472 over the past two years.

Average daily attendance has decreased by 393 over the past two years. A decrease of 242 ADA is projected for the 2012 -13 fiscal year.

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2012

<u>Charter Schools Chartered by District</u>	<u>Included in District Financial Statements, or Separate Report</u>
KIPP Hartwood Academy	Separate Report

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133 requirements, and is presented on the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2012.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 16,797,953
Less: Medi-Cal Administrative Activities not spent		<u>765,429</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 17,563,382</u>

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

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

1. PURPOSE OF SCHEDULES (Continued)

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides trend information on District's financial condition over the past three years and its anticipated condition for the 2012-2013 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

F - Schedule of Charter Schools

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

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosures in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2012, the District did not adopt this program.

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

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

We have audited the compliance of Alum Rock Union Elementary School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2012. Compliance with the requirements of state laws and regulations 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 the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below 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.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	No, see below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No, see below
Public Hearing Requirements - Receipt of Funds	1	Yes
Juvenile Court School	8	No, see below

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	No, see below
Contemporaneous Records of Attendance, for charter schools	3	No, see below
Mode of Instruction, for charter schools	1	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	4	No, see below

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

We did not perform any procedures related to Continuation Education or After School Education and Safety Program because the District does not offer these programs.

We did not perform any procedures related to instructional time for County Offices of Education because the District is not a County Office.

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

The 2011-2012 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2012. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2011-2012 Audit Guide relating to the comparison of tested data from the 2011-2012 fiscal year to the 2011-2012 School Accountability Report Cards.

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

We did not perform any procedures related to Class Size Reduction Program - Option Two classes and Districts with only one school serving K-3 because the District does not offer Option Two, and the District has more than one school serving K-3.

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

The District does not have any Charter Schools; therefore, we did not perform any of the testing required by Article 4 of the Audit Guide.

In our opinion, except for the noncompliance with the Attendance Reporting and Class Size Reduction Program identified in the Schedule of Audit Findings and Questioned Costs as Findings 2012-02 and 2012-03, Alum Rock Union Elementary School District complied, in all material respects, with the state laws and regulations referred to above, in all material respects, for the year ended June 30, 2012. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Alum Rock Union Elementary School District had not complied with the state laws and regulations.

Alum Rock Union Elementary School District's response to the findings identified in our audit are included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information of the Board of Trustees, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2012

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 Alum Rock Union Elementary School District as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. 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

Management of Alum Rock Union Elementary School District is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alum Rock Union Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of 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. We identified certain matters involving internal control that we communicated to management as identified in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2012-01.

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 finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

This report is intended solely for the information of the Board of Trustees, management, the California Department of Education, the California State Controller's Office and 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.


Crowe Horwath LLP

Sacramento, California
December 12, 2012

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 Alum Rock Union Elementary School District's compliance 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 Alum Rock Union Elementary School District's major federal programs for the year ended June 30, 2012. Alum Rock Union Elementary School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit 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. 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 on 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, 2012.

Internal Control Over Compliance

Management of Alum Rock Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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 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 was not designed to identify all deficiencies in internal control over compliance 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 of the Board of Trustees, management, the California Department of Education, the California State Controller's Office and 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.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 12, 2012

FINDINGS AND RECOMMENDATIONS

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported

Noncompliance material to financial statements noted?

	_____ Yes	<u> X </u> No
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FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

	_____ Yes	<u> X </u> No
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	Child Nutrition National School Lunch Program
84.410	Education Jobs Fund
84.365	Title III, Limited English Proficient (LEP) Student Program
84.394	ARRA: State Fiscal Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$ 526,901

Auditee qualified as low-risk auditee?

	_____ Yes	<u> X </u> No
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STATE AWARDS

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

**2012-01 DEFICIENCY - INTERNAL CONTROL - STUDENT BODY
ACCOUNTING (30000)**

Criteria

Internal Controls - Safeguarding of Assets

Condition

Linda Vista Elementary School:

- The expenditure selected for testing was not supported by the required expenditure approval form showing that the expenditure had been properly approved prior to payment.
- Fundraising event was reviewed and approved by the site principal after the event had already taken place.

Rodgers Elementary School:

- Deposits submitted to the office by teachers are not supported by detailed schedules, tally sheets, receipts or any other supporting documentation to vouch the initial receipt of cash received by the teachers.

McEntee Elementary School:

- Receipts are not issued when funds are turned into the ASB secretary.

Cassell Elementary School:

- Receipts are not issued when funds are turned into the ASB secretary.

George Middle School:

- Student clubs and student council do not use a receipt book or tally sheets to record cash collections.
- Cash turned in by individuals and activities is not supported by numbered receipts acknowledging initial receipt of the monies.
- Receipts are not issued when funds are turned into the ASB secretary.
Deposits are not performed on a timely basis.
- A monthly report of financial transactions of various trust and club accounts is not prepared and submitted to the school principal and other appropriate officials and students.

Sheppard Middle School:

- The ASB advisor/secretary does not maintain a record of receipt books issued by student clubs for the receipt of funds.
- Receipts are not issued when funds are turned into the ASB secretary.
- A monthly report of financial transactions of various trust and club accounts is not prepared and submitted to the school principal and other appropriate officials and students.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

**2012-01 DEFICIENCY - INTERNAL CONTROL - STUDENT BODY
ACCOUNTING (30000) (Continued)**

Effect

There exists a risk that ASB funds could potentially be misappropriated.

Cause

Adequate internal control procedures have not been implemented and enforced.

Fiscal Impact

Not determinable.

Recommendation

Linda Vista Elementary School:

- All expenditures should be properly approved prior to disbursement being issued to vendors. All documentation should be maintained in order to support the disbursements.
- Fund-raising events should be approved prior to the event taking place.

Rodgers Elementary School:

- Teachers should issue receipts to evidence the initial receipt of cash or should record the cash received for each item, by student or parent and by dollar amount in order to support the amount of cash deposited with the office.

McEntee Elementary School:

- Receipts should be issued when funds are turned into the ASB secretary.

Cassell Elementary School:

- Receipts should be issued when funds are turned into the ASB secretary.

George Middle School:

- Student clubs and student council should use a receipt book or tally sheets to record cash collections.
- Cash turned in by individuals and activities should be done promptly.
- Cash turned in by individuals and activities should be supported by numbered receipts acknowledging initial receipt of the monies.
- Receipts should be issued when funds are turned into the ASB secretary.
- Deposits should be performed on a timely basis.
- Monthly report of financial transactions of various trust and club accounts should be prepared and submitted to the school principal and other appropriate officials and students.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

2012-01 DEFICIENCY - INTERNAL CONTROL - STUDENT BODY
ACCOUNTING (30000) (Continued)

Sheppard Middle School:

- The ASB advisor/secretary should maintain a record of receipt books issued by student clubs for the receipt of funds.
- Receipts should be issued when funds are turned into the ASB secretary.
- Monthly reports of financial transactions of various trust and club accounts should be prepared and submitted to the school principal and other appropriate officials and students.

Corrective Action Plan

The District provided training to the school sites on October 16, 2012 to strengthen the internal controls over ASB funds. The District will also provide one-on-one trainings as needed, and when requested by school sites. The District ASB accountant will also be reviewing the ASB internal controls in the monthly clerical meetings. In addition, The District office will make site visits to selected schools twice a year to ensure internal controls and procedures are being followed. The District will require the use of receipts, orders forms or pre-numbered tickets to account for all cash received from ASB activities. School sites were given receipt books and the District has reemphasized the requirement of providing a receipt every time money is exchanged. School site were also given an excel ASB ledger templates, in which the school sites must document all revenue and expenditures generated from ASB activities. Middle Schools are required to maintain student council minutes and keep documents filed on site to be provided upon request. Middle schools are also required to maintain detailed financial records by club-specific and must provide monthly reports to the Principal.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2012-02 STATE COMPLIANCE - CLASS SIZE REDUCTION (50000)

Criteria

California Education Code 15133. Apportionment of Funds for Class Size Reduction.

Education Code Section 52127.

Condition

The J-7-CSR form, submitted to the California Department of Education, was not correctly populated. The District used ending class attendance instead of a calculated average of students attending each class throughout the school year. Further, the District did not take the appropriate penalty for classes above the 20.45 maximum average class size.

Effect

The District is not in compliance with State requirements for the June 30, 2012 fiscal year end reporting period.

Cause

Inadequate training related to the preparation of form J-7-CSR. In addition, the review performed by management did not sufficiently detect errors in the populated form.

Fiscal Impact

The District is only entitled to \$6,088,635 of CSR apportionment instead of the \$6,103,629 claimed on form J-7 CSR, a difference of \$14,994.

Recommendation

The person preparing form J-7-CSR should gain an understanding of the reporting requirements for the class sized reduction program by reviewing the instructions or attending training. Management should gain a solid understanding of the reporting requirements in order to perform an effective review of the form before the form is submitted to the State.

Corrective Action Plan

The District revised and resubmitted Form J-7CSR Report.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2012

2012-03 STATE COMPLIANCE - ATTENDANCE (40000)

Criteria

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

Condition

At Linda Vista Elementary School one student was marked present per teacher's attendance roster and in the attendance summary report for one day of a two day absence. However, the attendance log supported the student's absence for two days.

Effect

The extrapolated effect of the error is an overstatement of .63 ADA.

Cause

Attendance procedures are manual in nature and proper internal controls are not implemented.

Fiscal Impact

The extrapolated ADA impact is .63 ADA or \$3,973.

Recommendation

We recommend that the attendance clerk reconciles attendance log with attendance records to ensure attendance is accurately recorded.

Corrective Action Plan

The District revised and resubmitted the P-2.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2011-01 During testing of Title I Basic Grant exceptions were noted relating to comprehensive schoolwide plans. Testing was conducted at 4 of 13 Title I sites where it was noted that schoolwide plans did not incorporate a plan to assist students through the transition from early childhood program to local elementary school programs.	Implemented.	