

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**MEASURE G
2008 GENERAL OBLIGATION BONDS
FINANCIAL AUDIT**

JUNE 30, 2011

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

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JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizens Oversight Committee
Alum Rock Union Elementary School District
San Jose, California

We have audited the accompanying financial statements of the Alum Rock Union Elementary School District (the District), General Obligation Bond Fund (Measure G), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 1, the financial statements present only the General Obligation Bond Fund specific to Measure G and are not intended to present fairly the financial position and results of operations of Alum Rock Union Elementary School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bond Fund (Measure G) of the Alum Rock Union Elementary School District at June 30, 2011, and the results of its operations 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 2, 2011, on our consideration of the District General Obligations Bond Fund's (Measure G) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Varrinek Trine Day + Co. LLP

Palo Alto, California
December 2, 2011

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**BALANCE SHEET
JUNE 30, 2011**

ASSETS

Deposits and investments	\$	1,745,813
Accounts receivable - interest		148
Total Assets	\$	<u>1,745,961</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	745,900
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FUND BALANCE

Fund balance		
Restricted		1,000,061

Total Liabilities and Fund Balance	\$	<u>1,745,961</u>
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The accompanying notes are an integral part of these financial statements.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES

Interest income	\$ 74,224
QSCB reimbursement	2,229,562
All Other Local Revenue	63,638
Total Revenue	<u>2,367,424</u>

EXPENDITURES

Current

Classified salaries	259,838
Employees benefits	83,336
Supplies	7,946
Services and other operating expenses	400,007
Capital outlay	10,584,971
Total Expenditures	<u>11,336,098</u>

DEFICIENCY OF REVENUES OVER EXPENDITURES

(8,968,674)

FUND BALANCE - BEGINNING

9,968,735

FUND BALANCE - ENDING

\$ 1,000,061

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alum Rock Union Elementary School District Measure G Bond Fund conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Alum Rock Union Elementary School District Measure G Bond Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include the financial activity of the 2008 Measure G General Obligation Bond Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure G Bond Election of 2008. These financial statements are not intended to present the financial position and results of operations of the Alum Rock Union Elementary School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$179,000,000. The first series of bonds in the amount of \$39,000,328 were sold on August 19, 2008.

Fund Accounting

The operations of the Measure G Bond Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Measure G Bond Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Fund Balance - Governmental Funds

As of June 30, 2011, fund balances of the Measure G Bond Fund are classified as restricted.

Restricted funds can only be spent for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Use of 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 that 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/expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The District has implemented the provisions of this statement for the year ended June 30, 2011.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. Adoption of the statement is not expected to materially impact the Bond Fund's financial statement.

NOTE 2 – INVESTMENTS

Policies and Practices

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool. The District maintains all its General Obligation Bond fund investment of \$1,745,813 with the Santa Clara County Investment Pool. The fair value of this investment is approximately \$1,751,888 with an average maturity of 452 days.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – RECEIVABLES

Receivables at June 30, 2011, consist of interest receivable of \$148.

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

Salaries and benefits	\$ 1,295
Capital outlay	744,605
	<u>\$ 745,900</u>

NOTE 5 - INTERFUND TRANSACTIONS

The balance of \$2,229,562 due to General Obligation Bond, Measure G, from the Qualified School Construction Bonds, Series A resulted from reimbursement of project costs.

NOTE 6 – GENERAL LONG-TERM DEBT

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Accreted	Redeemed	Bonds Outstanding June 30, 2011
2008	08/01/33	3.00%-5.25%	\$ 39,000,328	\$ 39,053,245	\$ 62,292	\$ -	\$ 39,115,537

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

The bonds mature through 2034 as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2012	\$ 36,663	\$ 1,882,401	\$ 1,919,064
2013	48,425	1,885,639	1,934,064
2014	122,579	1,901,485	2,024,064
2015	193,476	1,925,588	2,119,064
2016	256,030	1,958,034	2,214,064
2017-2021	3,048,155	9,602,934	12,651,089
2022-2026	7,780,000	7,984,320	15,764,320
2027-2031	14,405,000	5,250,249	19,655,249
2032-2034	13,050,000	1,021,250	14,071,250
Total	38,940,328	\$ 33,411,900	\$ 72,352,228
Accretion to date	175,209		
	<u>\$ 39,115,537</u>		

Repayment of the Bonds is funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues are collected and disbursed out of a separate Bond Interest and Redemption Fund under the control of the Santa Clara Controller's Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2011, the Measure G Bond Fund had the following commitments with respect to unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
HVAC - Linda Vista Elementary	\$ 60,390	08/11/11
HVAC - Lyndale Elementary	54,390	12/12/11
New School Construction - San Antonio Elementary	2,400,000	12/12/11
Site improvements - Hubbard Elementary	37,531	12/12/11
	<u>\$ 2,552,311</u>	

INDEPENDENT AUDITOR'S REPORT



**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 and
Citizens Oversight Committee
Alum Rock Union Elementary School District
Campbell, California

We have audited the accompanying financial statements of the Alum Rock Union Elementary School District Measure G Bond Fund (Bond Fund), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alum Rock Union Elementary School District's Measure G Bond Fund 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*.

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

Varrinck Trine Day + Co. LLP

Palo Alto, California
December 2, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2011**

None reported.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
2008 MEASURE G BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2011**

None reported.