

**ALUM ROCK UNION ELEMENTARY  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2011**



# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

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JUNE 30, 2011

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Alum Rock Union Elementary School District (the "District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Alum Rock Union Elementary School District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

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

Varrinck Trine Day + Co. LLP

Palo Alto, California  
December 2, 2011

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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This Management's Discussion and Analysis section of Alum Rock Union Elementary School District's 2010-2011 annual financial report presents management's view of the of the District's financial performance during the fiscal year that ended on June 30, 2011. 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.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### *The Basic Financial Statements*

The basic financial statements presented herein include all of the activities of the Alum Rock Union Elementary School District (the "District") and its component units using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term liabilities). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary. The *governmental funds* statements tell how basic services like general and special education were financed in the short-term as well as what remains for future spending. The *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.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Figure A-1 summarizes the major features of the District's basic financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

**Figure A-1  
Major Features of the District wide and Fund Financial Statements  
Fund Statements**

<b>Type of Statements</b>	<b>District-wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as student body activities
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet.</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> <li>• Reconciliation to government wide financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets.</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and Measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; standard funds do not currently contain non-financial assets, though they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenue and expenses during the year, regardless of when cash is received or paid

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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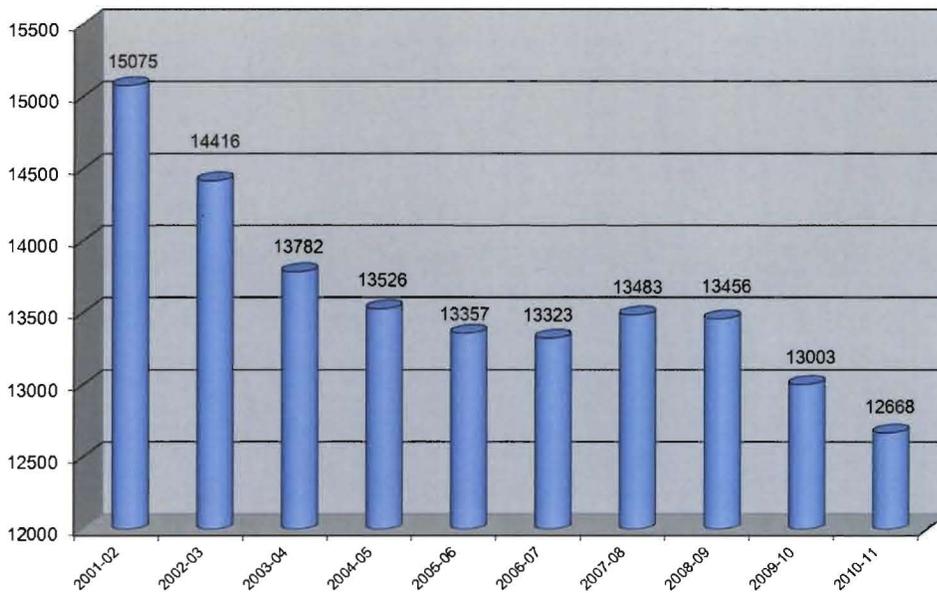
### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

#### *Revenue Limit District*

Since fiscal year 1973-74, State school districts have operated under general-purpose revenue limits established by the State Legislature. In general, the revenue limits are calculated for each school district by multiplying (1) the average daily attendance ("ADA") for each such district by (2) a base revenue limit per unit of ADA. The District's attendance rate is approximately 96.3% of enrollment. Since approximately 74.9% of the district's unrestricted general fund revenue is based on ADA and the revenue limit formula, it is important that the District monitor its ADA.

The District has been experiencing declining enrollment since prior to 2000. This decline has resulted in a loss of ADA, which translates into a loss in revenue. Chart-1 below provides the District's ten year enrollment history.

Alum Rock Union Elementary School District  
Chart-1: Ten Year Enrollment History



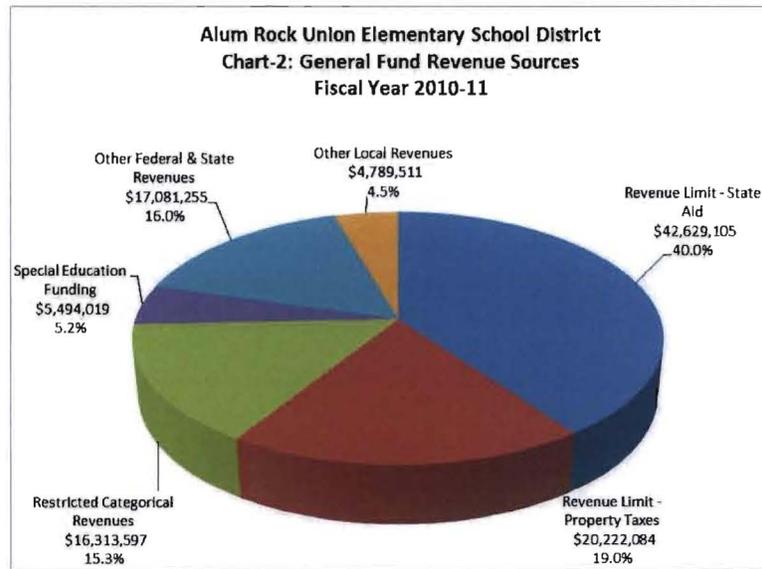
# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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The revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all State school districts of the same type. In 2010-11 the District's base revenue limit per unit of ADA was \$6,128.01; however, funded revenue limit per ADA was only \$5,027.24 (the State deficit funded by 17.963%). The District's revenue limit funding is accomplished by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments amount is the difference between the District's revenue limit and the local property tax revenues.

In 2010-11, the District received \$62.8 million from revenue limit sources, accounting for approximately 59.0% of General Fund revenues. Of this, local property taxes accounted for 19.0% of General Fund revenues (see Chart-2). The amount of property taxes (\$20.2 million) was less than amount received in 2009-10 (\$28.0 million) due to a decrease in assessed property values. Total revenue limit funding increased by \$1.4 million from prior year as a result of the State's partial restoration of apportionment deferral; deficit factor in 2010-11 was -17.963% compared to -18.355% in 2009-10.



\* On-behalf payments of \$2,228,129

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### THE DISTRICT AS A WHOLE

#### Net Assets

The District's net assets were \$39.1 million for the fiscal year ended June 30, 2011 (see Table-1). Restricted net assets of \$24.9 million are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. All District net assets are the result of governmental activities.

Alum Rock Union Elementary School District Governmental Activities Table-1: Net Assets (in millions of dollars)		
	2010-11	2009-10
Current and other assets	\$ 51.1	\$ 79.0
Capital assets	104.4	82.9
<b>Total Assets</b>	<b>155.5</b>	<b>161.9</b>
Current liabilities	9.7	13.2
Deferred revenue	2.2	0.4
Claims liabilities	0.6	0.6
Long-term obligations	103.9	106.5
<b>Total Liabilities</b>	<b>116.4</b>	<b>120.7</b>
Net assets		
Restricted	24.9	28.2
Unrestricted	14.2	13.0
<b>Total Net Assets*</b>	<b>\$ 39.1</b>	<b>\$ 41.2</b>

\* include internal service fund not reported in the Governmental Funds.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

### Change in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues and expenses for the year.

Alum Rock Union Elementary School District Governmental Activities			
Table-2: Changes in Net Assets (in millions of dollars)			
	2010-11	2009-10	
<b>Revenues</b>			
Charges for services	\$ 0.2	\$ 0.2	
Operating grants & contribution	29.8	31.0	
General Revenues:			
Federal & State Aid, Unrestricted	56.9	49.9	
Property Taxes	31.3	36.0	
Other general revenues	4.7	9.9	
<b>Total Revenues</b>	<b>122.9</b>	<b>127.0</b>	
<b>Expenses</b>			
Instructional related	91.4	91.8	
Student support services	13.3	12.8	
Administration	5.1	6.1	
Maintenance and operations	10.7	9.7	
Interest on long-term obligations	4.4	4.1	
Community Services & Other Outgo	0.1	0.1	
<b>Total Expenses</b>	<b>125.0</b>	<b>124.6</b>	
<b>Change in Net Assets</b>	<b>\$ (2.1)</b>	<b>\$ 2.4</b>	
Net Assets - Beginning	41.2	38.8	
Net Assets - Ending	<u>\$ 39.1</u>	<u>\$ 41.2</u>	

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### *Governmental Activities*

The total cost of all our governmental activities this year was \$125.0 million. The District's expenses are predominantly related to educating and caring for students. Total expenses exceed total revenues causing a decrease in net assets by \$2.1 million.

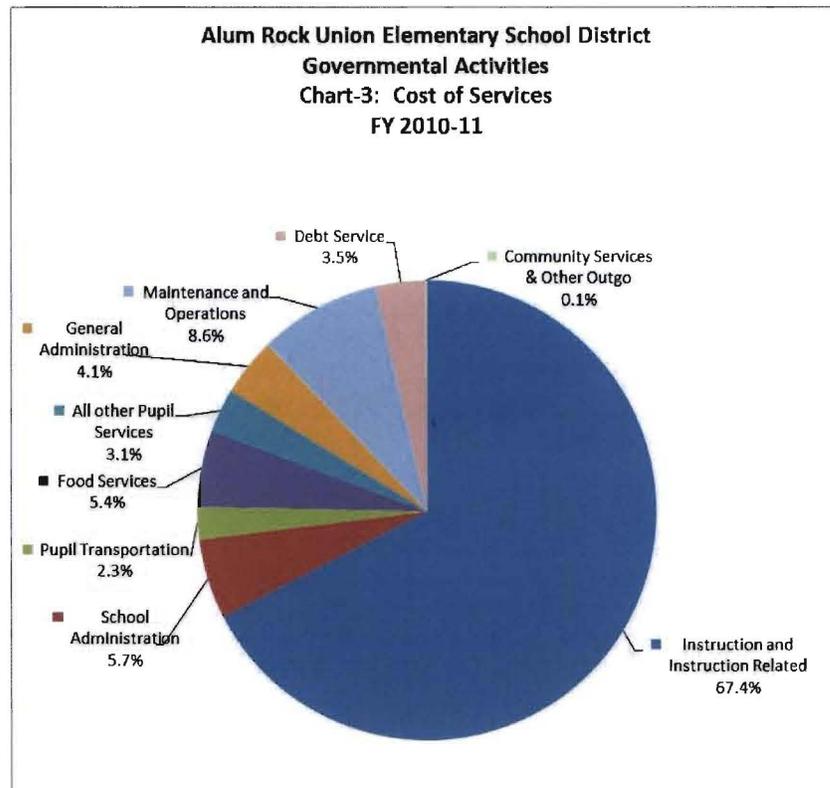
In Table-3, we have presented the cost of each of the District's ten largest functions -- instruction and supervision of instruction, instructional media, school administration, student transportation services, school food services, other pupil services, district administration, maintenance and operations, interest on long-term liabilities, and others. Providing this information allows our community to consider the cost of each function in comparison to the benefits they believe are provided by that function.

<b>Alum Rock Union Elementary School District</b>				
<b>Governmental Activities</b>				
<b>Table-3: Cost of Services</b>				
<b>(in millions of dollars)</b>				
	<u>2010-11</u>		<u>2009-10</u>	
Instruction and Supervision of Instruction	\$	83.8	\$	84.1
Instructional Media		0.5		0.4
School Administration		7.1		7.3
Pupil Transportation		2.8		2.7
Food Services		6.7		6.2
All other Pupil Services		3.8		3.8
Administration		5.1		6.1
Maintenance and operations		10.7		9.7
Interest on Long-term Liabilities		4.4		4.2
Community Services & Other Outgo		0.1		0.1
<b>Total</b>	<b>\$</b>	<b>125.0</b>	<b>\$</b>	<b>124.6</b>

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Chart-3 below provides a breakdown of the Governmental Activities by function. As is common with virtually all school districts, the majority of expenditures in the general fund are for salaries and benefits (approximately 83.5%). From a functional cost standpoint, Chart-3 shows that approximately 67.4% of total expenditures go for instruction and instruction-related activities.



As shown in Table-2, the cost of all of our governmental activities this year was \$125.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$31.4 million because a portion of the cost was paid by those who benefited directly from the programs (\$.2 million), or by other governments and organizations who subsidized certain programs with grants and contributions (\$86.7 million). We also received additional funding totaling \$4.8 million from a variety of other sources including leases and rentals, and interest income.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

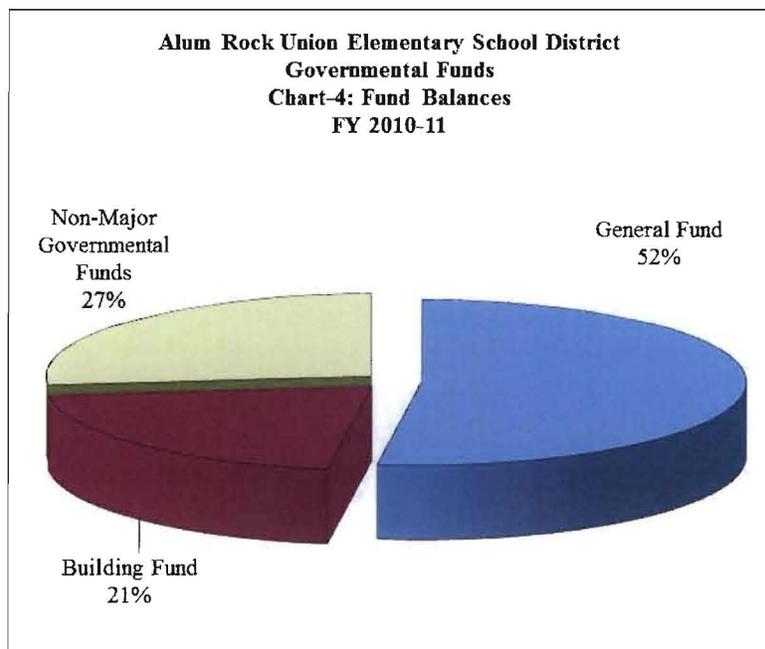
### THE DISTRICT'S FUNDS

As the District completed fiscal year 2010-11, our governmental funds reported a combined fund balance of \$35.3 million (see Table-4 and Chart-4). The District is required to maintain available reserves of 3% of total general fund expenditures for economic uncertainties, which amounts to \$3.2 million for 2010-11.

**Alum Rock Union Elementary School District  
Governmental Funds  
Table-4: Fund Balance**  
(in millions of dollars)

	<u>2010-11</u>	<u>2009-10</u>
General Fund	\$ 18.5	\$ 20.8
Building Fund	7.5	33.7
Non-Major Governmental Funds	9.3	9.5
<b>Total Fund Balances</b>	<b><u>\$ 35.3</u></b>	<b><u>\$ 64.0</u></b>

\* exclude internal service fund reported in Governmental Activities.



# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

### *General Fund Budgetary Highlights*

The original Adopted Budget projected a general fund deficit of approximately \$9.0 million. The year-end Final Budget projected an operating deficit of \$4.8 million. Our actual results showed a deficit of \$2.4 million, resulting in a positive variance from the Final Budget of \$.6 million. See Table-5. The primary reason for the positive variance from Final Budget to Actual is due to unspent restricted entitlements and site carryover balances. The District had a carryover balance of \$1.9 million from restricted categorical funds and \$.6 million from routine restricted maintenance funds, reflected in the legally restricted ending balance. The District also deferred one-time funding of Federal Ed Jobs Funds in the amount of \$2.1 million. Ed Jobs Fund will be used to alleviate layoffs on non-administrative positions for fiscal years 2011-12 and 2012-13. Favorable expenditure variance is due to unexpended programs funds, as well as expenditures that were not required or contracted services not performed as of year-end.

<b>Alum Rock Union Elementary School District</b>			
<b>General Fund</b>			
<b>Table-5: Budgetary Comparison FY 2010-11</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actuals</b>
Beginning Fund Balance	\$ 20,836,348	\$ 20,836,348	\$ 20,836,348
Total Revenues and Other Sources	99,769,109	108,161,664	108,757,699
Total Expenditures and Other Uses	<u>(108,767,880)</u>	<u>(112,992,986)</u>	<u>(111,140,999)</u>
Net Change to Fund Balance	<u>(8,998,771)</u>	<u>(4,831,322)</u>	<u>(2,383,300)</u>
Ending Fund Balance	<u>\$ 11,837,577</u>	<u>\$ 16,005,026</u>	<u>\$ 18,453,048</u>
Legally Restricted			2,546,822
Committed			<u>3,267,386</u>
<b>Unassigned Fund Balance</b>			<u><b>\$ 12,638,840</b></u>

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### CAPITAL ASSET & DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2011, the District had \$104.4 million in a broad range of capital assets, including land, buildings, and furniture and equipment (net of accumulated depreciation of \$95.6 million); see Table-6. This amount represents a net increase (including additions, deductions and depreciation) of \$21.5 million from 2009-10 as buildings and building improvements were added in 2010-11. Land is accounted for at purchase cost, not market value, and is not depreciated. Our school sites have low values for today's market because the District acquired the land many decades ago. School buildings and site improvements are valued at their historical construction cost less accumulated depreciation.

Work-in-Progress in 2010-11 relates to the following unfinished capital projects.

- Lyndale Elementary – streetscape, air conditioning, and modernization;
- Linda Vista Elementary – streetscape, air conditioning, and modernization;
- Hubbard Elementary – modernization;
- San Antonio Elementary – new school, and
- Sheppard Middle School Joint-Use Athletic Facility – preconstruction costs.

Alum Rock Union Elementary School District Governmental Activities Table-6: Capital Assets (Net of Accumulated Depreciation) (in millions of dollars)		
	2010-11	2009-10
Land	\$ 2.4	\$ 2.4
Buildings and improvements	83.7	68.9
Work-In-Progress	16.7	9.8
Equipment	1.6	1.8
<b>Total Capital Assets</b>	<b>\$ 104.4</b>	<b>\$ 82.9</b>

\* include internal service fund not reported in the Governmental Funds.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

### Long-Term Liabilities

At year-end, the District had \$103.8 million of long-term debt outstanding. This debt can be seen in Table-7 below. The District has issued only \$78.2 million of the \$140 million bonds that were authorized by voters in 2008.

The State limits the amount of general obligation debt (bonding capacity) that districts can issue to 1.25% of the assessed value of all taxable property within the district's boundaries for a union school district, and 2.50% for a unified school district. The District's outstanding general obligation debt service exceeds the statutorily imposed limit, and the District will not be able to issue more bonds until the debt ratio decrease.

	June 30,		Increase
	2011	2010	(Decrease)
General Obligation Bonds	\$ 76.3	\$ 78.8	\$ (3)
Certificates of Participation	24.5	24.3	0
Accumulated Vacation	0.3	0.2	0
Capital Leases	0.5	0.7	(0)
Retiree Incentive	2.2	2.5	(0)
	<b>\$ 103.8</b>	<b>\$ 106.5</b>	<b>\$ (2.7)</b>

Other obligations include compensated absences payable, retiree incentive liabilities, and other long-term liabilities. The District has no OPEB obligations. We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In developing the 2011-12 Budget, the District used the following key assumptions.

1. **REVENUE LIMIT DISTRICT:** Cost of Living Adjustment (COLA) is 2.24% with an increase in deficit funding factor to 19.754%. Base revenue limit amount of \$6,217.48 is expected to be funded only at \$5,027.24 per ADA ("flat funding" from 2010-11). Funded revenue limit is \$1,190.24 less per ADA than what the district is entitled to. Average Daily Attendance (ADA) is budgeted at 12,177 for both general and special education.

2. Federal income for Title programs was projected to decrease by 10%; while State categorical income was projected to increase by 2.24%. It was assumed at budget adoption that all 2010-11 revenues would be spent by year-end, allowing for no carryovers into 2011-12. Also, federal revenues for 2010-11 included one-time federal stimulus funds.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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3. No COLA has been projected for salaries and benefits; while a net change based on step and column is approximately 1.5% increase. The District has sunshined contract openers with all units at the end of 2010-11 with proposed zero increase to the salary schedules for 2011-12.

4. The District is in Year 3 of PI (performance improvement) status as an LEA (local education agency). In addition to other requirements as a result of PI designation, the District must set aside 10% of Title I funds for parental involvement and update the LEA Plan, which the District already does annually.

5. 2011-12 expenditures are based on the following forecasts:

	<u>Enrollment</u>	<u>Staffing Ratio</u>
Grades K-3 <sup>rd</sup>	5,710	20:1
Grades 4 <sup>th</sup> -5 <sup>th</sup>	2,859	32:1
Grades 6 <sup>th</sup> -8 <sup>th</sup>	3,489	32:1
Special Day Class (SDC)	349	11:1
		(average across the district)

In addition to the above staffing ratio, LUCHA School and Adalante School grades 4<sup>th</sup>-5<sup>th</sup> are staffed at 25:1.

Since approximately 59.0% of the District's total general fund revenues 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 reports were prepared, the District was aware of the following conditions that could significantly affect its financial health in the future:

- The state budget contains “trigger provisions” that require the California Director of Finance to assess tax receipts in December 2011, and to make additional expenditure reductions if revenues fall short of forecasts. If tax receipts are more than \$2 billion below estimates, Home-to-School Transportation funding would be cut in half and Revenue Limit funding would be cut proportional to the revenue shortfall. This could cause mid-year cuts of up to \$3.8 million for the District.
- Enrollment continues to decline due to the growth of charter schools within district boundaries.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
 JUNE 30, 2011

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 25,072,666
Receivables	22,801,806
Prepaid expenses	677,444
Deferred charges	1,885,501
Stores inventories	303,588
Other current assets	390,522
Capital assets not depreciated	19,158,027
Capital assets, net of accumulated depreciation	85,291,891
<b>Total Assets</b>	<u>155,581,445</u>
<b>LIABILITIES</b>	
Accounts payable	8,446,801
Interest payable	1,281,514
Deferred revenue	2,206,914
Claim liabilities	603,813
Current portion of long-term obligations	3,014,740
Noncurrent portion of long-term obligations	100,881,175
<b>Total Liabilities</b>	<u>116,434,957</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	10,574,837
Restricted for:	
Legally restricted programs	7,935,903
Debt service	2,938,345
Capital projects	1,458,710
Self insurance	1,942,320
Unrestricted	14,296,373
<b>Total Net Assets</b>	<u>\$ 39,146,488</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, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes In Net Assets
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 79,954,994	\$ 3,309	\$ 15,956,996	\$ (63,994,689)
Instruction-related activities:				
Supervision of instruction	3,833,112	1	1,957,260	(1,875,851)
Instructional library, media, and technology	455,874	7	380,791	(75,076)
School site administration	7,116,254	-	1,068,609	(6,047,645)
Pupil services:				
Home-to-school transportation	2,822,972	-	1,515,936	(1,307,036)
Food services	6,706,629	154,749	6,399,816	(152,064)
All other pupil services	3,815,563	-	957,158	(2,858,405)
Administration:				
Data processing	1,601,973	-	-	(1,601,973)
All other administration	3,512,234	6,910	1,425,764	(2,079,560)
Plant services	10,726,715	3,377	66,886	(10,656,452)
Community services	48,550	-	40,608	(7,942)
Interest on long-term obligations	4,439,583	-	-	(4,439,583)
Other outgo	33,829	-	-	(33,829)
<b>Total Governmental Activities</b>	<b>\$125,068,282</b>	<b>\$ 168,353</b>	<b>\$ 29,769,824</b>	<b>(95,130,105)</b>
General revenues and subventions:				
Property taxes, levied for general purposes				22,074,630
Property taxes, levied for debt service				5,953,187
Taxes levied for other specific purposes				3,332,422
Federal and State aid not restricted to specific purposes				56,914,929
Interest and investment earnings				142,048
Transfers				31,669
Miscellaneous				4,585,589
<b>Subtotal, General Revenues</b>				<b>93,034,474</b>
<b>Change in Net Assets</b>				<b>(2,095,631)</b>
Net Assets - Beginning				41,242,119
Net Assets - Ending				<b>\$ 39,146,488</b>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011

	General Fund	Building Funds	Non Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Deposits and investments	\$ 5,324,921	\$ 9,115,084	\$ 8,295,939	\$ 22,735,944
Receivables	21,714,827	148	1,086,831	22,801,806
Due from other funds	156,562	-	-	156,562
Stores inventories	-	-	303,588	303,588
<b>Total Assets</b>	<u>\$27,196,310</u>	<u>\$ 9,115,232</u>	<u>\$ 9,686,358</u>	<u>\$ 45,997,900</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 6,536,348	\$ 1,637,300	\$ 248,604	\$ 8,422,252
Deferred revenue	2,206,914	-	-	2,206,914
<b>Total Liabilities</b>	<u>8,743,262</u>	<u>1,637,300</u>	<u>248,604</u>	<u>10,629,166</u>
<b>Fund Balances:</b>				
Nonspendable	20,000	-	304,588	324,588
Restricted	2,526,822	7,477,932	8,200,117	18,204,871
Committed	3,267,386	-	933,049	4,200,435
Unassigned	12,638,840	-	-	12,638,840
<b>Total Fund Balances</b>	<u>18,453,048</u>	<u>7,477,932</u>	<u>9,437,754</u>	<u>35,368,734</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$27,196,310</u>	<u>\$ 9,115,232</u>	<u>\$ 9,686,358</u>	<u>\$ 45,997,900</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 GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 35,368,734</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 200,046,716	
Accumulated depreciation is	<u>(95,596,798)</u>	
Net Capital Assets		104,449,918
In governmental funds, accrued interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, accrued interest on long-term debt is recognized as it accrues.		(1,281,514)
In the governmental funds, costs relating to the issuance of debt are recognized when they are paid. On the government-wide statements, cost of issuance are recorded as a prepaid expense at the net amortized cost on the statement of net assets.		1,885,501
An internal service fund is used by the District's management to charge the costs of the medical, vision, and dental self insurance programs to the individuals funds. The assets and liabilities of the internal service fund are included with governmental activities on the government-wide financial statements.		2,619,764
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	78,180,537	
Unamortized bond premium	1,901,179	
Unamortized bond discount	(36,843)	
Unamortized defeasance costs	(3,733,079)	
Certificates of participation	28,000,000	
Unamortized discounts on certificates of participation	(3,501,094)	
Capital leases payable	542,313	
Compensated absences (vacations)	347,863	
Retiree incentive plan	<u>2,195,039</u>	
Total Long-Term Obligations		<u>(103,895,915)</u>
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 39,146,488</u></b>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

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

	General Fund	Building Fund	Nonmajor Governmental Funds
<b>REVENUES</b>			
Revenue limit sources	\$ 62,851,189	\$ -	\$ -
Federal sources	11,426,937	-	6,156,175
Other State sources	27,443,066	-	1,050,783
Other local sources	7,036,507	149,072	6,724,554
<b>Total Revenues</b>	<u>108,757,699</u>	<u>149,072</u>	<u>13,931,512</u>
<b>EXPENDITURES</b>			
Current			
Instruction	76,893,983	-	-
Instruction-related activities:			
Supervision of instruction	3,669,825	-	-
Instructional library, media and technology	436,454	-	-
School site administration	6,813,108	-	-
Pupil services:			
Home-to-school transportation	2,702,716	-	-
Food services	9,202	-	6,411,730
All other pupil services	3,653,023	-	-
Administration:			
Data processing	1,533,730	-	-
All other administration	5,377,859	-	277,739
Plant services	9,572,126	389,097	11,964
Facility acquisition and construction	244	25,936,278	1,072,792
Community services	46,482	-	-
Debt service			
Principal	216,034	-	2,760,000
Interest and other	182,384	-	3,478,333
<b>Total Expenditures</b>	<u>111,107,170</u>	<u>26,325,375</u>	<u>14,012,558</u>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<u>(2,349,471)</u>	<u>(26,176,303)</u>	<u>(81,046)</u>
<b>Other Financing Sources (Uses)</b>			
Other uses	(33,829)	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,383,300)</u>	<u>(26,176,303)</u>	<u>(81,046)</u>
<b>Fund Balance - Beginning</b>	20,836,348	33,654,235	9,518,800
<b>Fund Balance - Ending</b>	<u>\$ 18,453,048</u>	<u>\$ 7,477,932</u>	<u>\$ 9,437,754</u>

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

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<b>Total Governmental Funds</b>	
\$	62,851,189
	17,583,112
	28,493,849
	<u>13,910,133</u>
	<u>122,838,283</u>
	76,893,983
	3,669,825
	436,454
	6,813,108
	2,702,716
	6,420,932
	3,653,023
	1,533,730
	5,655,598
	9,973,187
	27,009,314
	46,482
	2,976,034
	<u>3,660,717</u>
	<u>151,445,103</u>
	<u>(28,606,820)</u>
	<u>(33,829)</u>
	<u>(28,640,649)</u>
	<u>64,009,383</u>
\$	<u><u>35,368,734</u></u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (28,640,649)</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlays exceed depreciation in the period.	
Capital outlays	\$ 26,699,539
Depreciation expense	<u>(5,141,511)</u>
Net Expense Adjustment	21,558,028
Accreted interest on capital appreciation bonds does not require the use of current financial resources, and thus is not recorded in the governmental funds. In the statement of activities, however, accreted interest expense is recognized in the government-wide statements as the interest accrues.	(62,292)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	2,760,000
Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds.	130,378
Amortization of bond discount is an expense in the statement of activities, but is not recognized in the governmental funds.	(4,205)
Amortization of defeasance cost of bonds is not recognized in the governmental funds, but it is recorded as a deferred charge and amortized to operations in the government-wide financial statements.	(349,048)
Amortization of certification of participations discount is an expense in the statement of activities, but is not recognized in the governmental funds.	(233,406)
Amortization of cost of issuance of bonds is not recognized in the governmental funds, but it is recorded as a prepaid expense and amortized to operations in the government-wide financial statements.	(135,348)

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2011**

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In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). In the current year vacation earned exceeded vacation used by \$101,179.	(101,179)
Expense for the new supplemental employee retirement plan is not recorded in the governmental funds, but it increases the long-term liabilities in the statement of net assets and increases expenditures in the statement of activities.	(608,460)
Payments for the supplemental retiree incentive plan is an expenditure in the governmental funds, but it reduces long term liabilities in the statement of net assets and does not affect the statement of activities.	869,673
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	216,034
Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due.	5,433
An internal service fund is used by the District's management to charge the costs of medical, vision, and dental insurance programs to the individuals funds. The net revenue of the internal service fund is reported with the governmental activities.	2,499,410
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (2,095,631)</b>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 2,336,722
Prepaid expenses	677,444
Other current assets	390,522
<b>Total Current Assets</b>	<u>3,404,688</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	24,549
Due to other funds	156,562
Claim liabilities	603,813
<b>Total Current Liabilities</b>	<u>784,924</u>
<b>NET ASSETS</b>	
Nonspendable	677,444
Unassigned	1,942,320
<b>Total Net Assets</b>	<u>\$ 2,619,764</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Inter-district premiums	\$ 16,668,917
<b>OPERATING EXPENSES</b>	
Payroll costs	159,597
Supplies and materials	7,042
Claims expenses	14,006,858
<b>Total Operating Expenses</b>	<u>14,173,497</u>
<b>Operating Income</b>	<u>2,495,420</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>3,990</u>
<b>Change in Net Assets</b>	2,499,410
<b>Total Net Assets - Beginning</b>	<u>120,354</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ 2,619,764</u></u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from user charges	\$ 16,460,642
Cash payments to other suppliers of goods or services	(13,854,881)
Cash payments for insurance claims	(1,421,562)
Net Cash Provided by Operating Activities	<u>1,184,199</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>3,990</u>
Net Increase in Cash and Cash Equivalents	1,188,189
Cash and Cash Equivalents - Beginning	1,148,533
Cash and Cash Equivalents - Ending	<u>\$ 2,336,722</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 2,495,420
Changes in assets and liabilities:	
Prepaid expenses	173,722
Other current assets	(390,522)
Accounts payable	(927,120)
Claim liabilities	40,974
Due to other fund	(208,275)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,184,199</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 223,553
<b>Total Assets</b>	<u>\$ 223,553</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 223,553
<b>Total Liabilities</b>	<u>\$ 223,553</u>

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

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

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

#### **Basis of Presentation - Fund Accounting**

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

#### **Governmental Funds**

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

#### **Major Funds**

##### **General Fund**

The General Fund is the chief operating fund for all districts. It is used to account for and report all financial resources not accounted for and reported in another fund. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

##### **Building Fund**

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Non-Major Governmental Funds

#### Special Revenue Funds

The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

##### **Cafeteria Fund**

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

##### **Deferred Maintenance Fund**

The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (Education Code Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

#### Debt Service Funds

The Debt Service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

##### **Bond Interest and Redemption Fund**

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

##### **Tax Override Fund**

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Capital Project Funds

The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

#### Capital Facilities Fund

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

#### County School Facilities Fund

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

#### Special Reserve Fund

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

### Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

#### Internal Service Fund

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

### Fiduciary Funds

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

### **Basis of Accounting - Measurement Focus**

#### **Government-Wide Financial Statements**

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

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

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Fund Financial Statements

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

#### Governmental Funds

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

#### Proprietary Funds

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

#### Fiduciary Funds

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

### Revenues – Exchange and Non-Exchange Transactions

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

### **Deferred Revenue**

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

### **Expenses/Expenditures**

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

### **Deposits and Investments**

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

### **Restricted Assets**

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

### **Prepaid Expenditures**

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Stores Inventories

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

### Capital Assets and Depreciation

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

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

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

### Interfund Balances

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

### Compensated Absences

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

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### **Accrued Liabilities and Long-Term Obligations**

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

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

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

### **Deferred Issuance Costs, Defeasance Costs, Premiums and Discounts**

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

### **Fund Balances - Governmental Funds**

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only 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.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### **Minimum Fund Balance Policy**

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of committed amounts equal to no less than 3 percent of General Fund expenditures and other financing uses.

### **Net Assets**

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

### **Interfund Activity**

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

### **Estimates**

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Budgetary Data

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

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

### Property Tax

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

### 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 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.

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 (such as the reserve for Economic Uncertainties). 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.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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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.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

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 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 GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB 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.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 22,735,944
Proprietary activities	2,336,722
Fiduciary funds	223,553
Total Deposits and Investments	<u>\$ 25,296,219</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 385,572
Cash in revolving	21,000
Investments	24,889,647
Total Deposits and Investments	<u>\$ 25,296,219</u>

#### Policies and Practices

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

#### Investment in County Treasury

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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**General Authorizations**

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

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

**Interest Rate Risk**

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

Investment Type	Cost	Fair Value	Weighted Average Maturity In Years
County Pool Investment Fund	\$ 17,586,713	\$ 17,647,915	452 days
Money Market	7,302,934	7,302,934	Not Applicable
Total	<u>\$ 24,889,647</u>	<u>\$ 24,950,849</u>	

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool is not rated as of June 30, 2011. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Rating as of Year End	
		AA	Unrated
County Pooled Investment Fund	\$ 17,647,915	\$ -	\$ 17,647,915
Money Market	7,302,934	7,302,934	-
Total	<u>\$ 24,950,849</u>	<u>\$ 7,302,934</u>	<u>\$ 17,647,915</u>

### Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2011, the District was not exposed to any significant custodial credit risk.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

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**NOTE 3 – RECEIVABLES**

Receivables at June 30, 2011, consisted of the following:

	General	Building Fund	Nonmajor Funds	Total
Federal Government				
Categorical aid	\$ 1,707,553	\$ -	\$ 943,842	\$ 2,651,395
State Government				
Apportionment	13,667,159	-	-	13,667,159
Categorical aid	3,568,149	-	80,497	3,648,646
Lottery	798,597	-	-	798,597
Local Government				
Interest	29,017	-	2,540	31,557
Other Local Sources	1,944,352	148	59,952	2,004,452
Total	<u>\$ 21,714,827</u>	<u>\$ 148</u>	<u>\$ 1,086,831</u>	<u>\$ 22,801,806</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Construction in Progress	9,808,216	13,695,568	6,754,435	16,749,349
Total Capital Assets not being depreciated	12,216,894	13,695,568	6,754,435	19,158,027
Capital Assets being depreciated:				
Land Improvements	36,096,915	1,298,465	-	37,395,380
Buildings and Improvements	118,601,274	18,216,021	-	136,817,295
Furniture and Equipment	6,432,094	243,920	-	6,676,014
Total Capital Assets being depreciated	161,130,283	19,758,406	-	180,888,689
Total Capital Assets	173,347,177	33,453,974	6,754,435	200,046,716
Less Accumulated Depreciation:				
Land Improvements	21,343,801	892,540	-	22,236,341
Buildings and Improvements	64,498,140	3,804,746	-	68,302,886
Furniture and Equipment	4,613,346	444,225	-	5,057,571
Total Accumulated Depreciation	90,455,287	5,141,511	-	95,596,798
Governmental Activities Capital Assets, Net	<u>\$ 82,891,890</u>	<u>\$ 28,312,463</u>	<u>\$ 6,754,435</u>	<u>\$ 104,449,918</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 3,322,224
Supervision of instruction	163,287
Instructional library, media, and technology	19,420
School site administration	303,146
Home-to-school transportation	120,256
Food services	285,697
All other pupil services	162,540
Community services	2,068
All other general administration	250,877
Data processing	68,243
Plant maintenance and operations	443,753
Total Depreciation Expense Governmental Activities	<u>\$ 5,141,511</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

**NOTE 5 – INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances at June 30, 2011, between major and non-major governmental funds are as follows:

		Due From
		General
Due To	Self Insurance	\$ 156,562

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

**NOTE 6 – ACCOUNTS PAYABLE**

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

	General	Building Fund	Nonmajor Governmental Funds	Total	Proprietary Fund
Vendor payables	\$ 1,900,271	\$ 1,636,005	\$ 241,623	\$ 3,777,899	\$ 24,549
Salaries and benefits	4,636,077	1,295	6,981	4,644,353	-
Total	<u>\$ 6,536,348</u>	<u>\$ 1,637,300</u>	<u>\$ 248,604</u>	<u>\$ 8,422,252</u>	<u>\$ 24,549</u>

**NOTE 7 – DEFERRED REVENUE**

Deferred revenue at June 30, 2011, consists of the following:

	General
Federal financial assistance	\$ 2,206,914

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

**NOTE 8 – LONG-TERM OBLIGATIONS**

**Summary**

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 80,878,245	\$ 62,292	\$ 2,760,000	\$ 78,180,537	\$ 2,386,663
Premium	2,031,557	-	130,378	1,901,179	130,378
Discount	(41,048)	-	(4,205)	(36,843)	(4,205)
Defeasance costs	(4,082,127)	-	(349,048)	(3,733,079)	(349,048)
Certificates of participation	28,000,000	-	-	28,000,000	-
Discount	(3,734,500)	-	(233,406)	(3,501,094)	(233,406)
Accumulated vacation - net	246,684	101,179	-	347,863	-
Capital leases	758,347	-	216,034	542,313	227,378
Retiree incentive plan	2,456,252	608,460	869,673	2,195,039	856,980
	<u>\$ 106,513,410</u>	<u>\$ 771,931</u>	<u>\$ 3,389,426</u>	<u>\$ 103,895,915</u>	<u>\$ 3,014,740</u>

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

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding as of June 30, 2011
				Outstanding July 1, 2010	Accreted/ Issued	Redeemed	
2003	09/15/15	2.25-3.70%	\$ 6,045,000	\$ 5,580,000	\$ -	\$ 40,000	\$ 5,540,000
2005	09/01/21	3.00-4.25%	\$ 20,090,000	13,280,000	-	1,900,000	11,380,000
2007	09/21/26	4.30-5.00%	\$ 9,665,000	9,365,000	-	-	9,365,000
2009	08/01/33	3.00-5.25%	\$ 39,000,328	39,053,245	62,292	-	39,115,537
2010	09/01/26	3.00-5.00%	\$ 13,600,000	13,600,000	-	820,000	12,780,000
				<u>\$ 80,878,245</u>	<u>\$ 62,292</u>	<u>\$ 2,760,000</u>	<u>\$ 78,180,537</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

**Debt Service Requirements to Maturity**

The bonds mature through 2034 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 2,386,663	\$ 3,393,216	\$ 5,779,879
2013	3,423,425	3,300,617	6,724,042
2014	2,932,579	3,218,747	6,151,326
2015	3,158,476	3,154,887	6,313,363
2016	3,651,030	3,083,232	6,734,262
2017-2021	17,968,155	13,051,499	31,019,654
2022-2026	15,685,000	9,029,605	24,714,605
2027-2031	15,750,000	5,281,424	21,031,424
2032-2034	13,050,000	1,021,250	14,071,250
Total	<u>78,005,328</u>	<u>\$ 44,534,477</u>	<u>\$ 122,539,805</u>
Accretion to date	175,209		
	<u>\$ 78,180,537</u>		

**Certificates of Participation**

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

Year Ending June 30,	Principal	Interest to Maturity	Total
2012	\$ -	\$ 1,522,000	\$ 1,522,000
2013	-	1,522,000	1,522,000
2014	-	1,522,000	1,522,000
2015	3,000,000	1,522,000	4,522,000
2016	-	1,367,500	1,367,500
2017-2021	-	6,837,500	6,837,500
2022-2026	25,000,000	6,837,500	31,837,500
	<u>\$ 28,000,000</u>	<u>\$ 21,130,500</u>	<u>\$ 49,130,500</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

**Capital Leases**

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

	Equipment
Balance, July 1, 2010	\$ 758,347
Payments	216,034
Balance, June 30, 2011	<u>\$ 542,313</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 245,933
2013	245,932
2014	77,009
Total	568,874
Less: Amount Representing Interest	(26,561)
Present Value of Minimum Lease Payments	<u>\$ 542,313</u>

**Supplemental Early Retirement Plan (SERP)**

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

Year Ending June 30,	SERP Payment
2012	\$ 856,980
2013	856,980
2014	359,387
2015	121,692
Total	<u>\$ 2,195,039</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

**NOTE 9 – FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 20,000	\$ -	\$ 1,000	\$ 21,000
Stores inventories	-	-	303,588	303,588
Total Nonspendable	<u>20,000</u>	<u>-</u>	<u>304,588</u>	<u>324,588</u>
<b>Restricted</b>				
Legally restricted programs	2,526,822	-	2,521,548	5,048,370
Capital projects	-	7,477,932	1,458,710	8,936,642
Debt services	-	-	4,219,859	4,219,859
Total Restricted	<u>2,526,822</u>	<u>7,477,932</u>	<u>8,200,117</u>	<u>18,204,871</u>
<b>Committed</b>				
Reserve for economic uncertainties	3,267,386	-	-	3,267,386
Deferred maintenance program	-	-	933,049	933,049
Total Committed	<u>3,267,386</u>	<u>-</u>	<u>933,049</u>	<u>4,200,435</u>
<b>Unassigned</b>				
Remaining unassigned	12,638,840	-	-	12,638,840
Total Unassigned	<u>12,638,840</u>	<u>-</u>	<u>-</u>	<u>12,638,840</u>
Total	<u>\$ 18,453,048</u>	<u>\$ 7,477,932</u>	<u>\$ 9,437,754</u>	<u>\$ 35,368,734</u>

**NOTE 10 - RISK MANAGEMENT**

**Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2011, the District contracted with Coregis Insurance Company for property and liability insurance coverage and The Hartford Insurance Company for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

### Workers' Compensation

For fiscal year 2011, the District did not participate in the SELF pool, as in fiscal year 2009-10. Instead, the District purchased excess insurance from Zurich and Chartis/Lexington. The limits were as shown below.

Policy Type	2009/2010 Premium	2010/2011 Premium	Carrier
General Liability	\$91,280	\$89,156	American Guarantee and Liability Insurance Company
† Umbrella Liability \$10M Xs \$1M Effective 7/1/2010 – 12/31/2011	\$64,374	\$32,284	American Guarantee and Liability Insurance Company
Excess Liability - \$10M Xs \$11M Effective 7/1/2010 – 7/1/2011	\$40,400	* \$20,898	Lexington Insurance Company

† Prorated premium(s) of \$96,658 (full term premium).

\* Premium for policy extension: 7/1/2011 to 12/31/2011.

### Employee Medical Benefits

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

### Claim Liabilities

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

	Medical	Dental	Vision	Total
Liability Balance, July 1, 2009	\$ 998,313	\$ 209,199	\$ 14,352	\$ 1,221,864
Claims and changes in estimates	1,461,343	1,444,607	111,234	3,017,184
Claims payments	(2,131,037)	(1,435,240)	(109,932)	(3,676,209)
Liability Balance, June 30, 2010	328,619	218,566	15,654	562,839
Claims and changes in estimates	1,722,719	1,420,068	132,251	3,275,038
Claims payments	(1,693,143)	(1,409,140)	(131,781)	(3,234,064)
Liability Balance, June 30, 2011	\$ 358,195	\$ 229,494	\$ 16,124	\$ 603,813

Assets available to pay claims at June 30, 2011

\$ 2,546,133

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

#### CalSTRS

##### Plan Description

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

##### Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$4,307,965, \$4,342,455, and \$4,606,595, respectively, and equal 100 percent of the required contributions for each year.

#### CalPERS

##### Plan Description

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### **Funding Policy**

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$1,777,432, \$1,641,776, and \$1,694,963, respectively, and equal 100 percent of the required contributions for each year.

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

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

### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,228,129, \$2,245,969, and \$2,522,303, for fiscal years ending June 30, 2011, 2010 and 2009, respectively (4.267 percent of 2011-2010 and 2010-2009 annual payrolls and 4.517 percent of 2009-2008 annual payroll, respectively). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the actual amounts reported in the General Fund Budgetary Schedule.

## **NOTE 12 - COMMITMENTS AND CONTINGENCIES**

### **Grants**

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the 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
Sheppard Project	2,065,140	07/02/12
	<u>\$ 4,617,451</u>	

### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

### Supplemental Employee Retirement Plan (SERP)

At June 30, 2008, the District adopted a one-time early retirement incentive program. The District has entered into contracts with certain eligible employees whereby certificated employees who have reached the age of fifty-three with at least ten years of continuous service will receive a SERP variable benefit. Depending on the employee election, payments are to be paid for a period of five to ten years to the employees. The District entered into a nonparticipating agreement whereby the District will pay to United of Omaha a defined contribution amount of \$484,900 for the next two years, totaling \$969,800 and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

At June 30, 2009, the District adopted a one-time early retirement incentive program. The District has entered into contracts with certain eligible employees whereby certificated employees who have reached the age of fifty-three with at least ten years of continuous service will receive a SERP variable benefit. Depending on the employee election, payments are to be paid for a period of five to ten years to the employees. The District entered into a nonparticipating agreement whereby the District will pay to United of Omaha a defined contribution amount of \$250,388 for the next two years and \$237,695 for the last year, totaling \$738,471 and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

At June 30, 2011, the District adopted a one-time early retirement incentive program. The District has entered into contracts with certain eligible employees whereby certificated employees who have reached the age of fifty-three with at least ten years of continuous service will receive a SERP variable benefit. Depending on the employee election, payments are to be paid for a period of five to ten years to the employees. The District entered into a nonparticipating agreement whereby the District will pay to United of Omaha a defined contribution amount of \$121,622 over five years commencing in the current fiscal year and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive (Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$ 59,480,247	\$ 62,684,020	\$ 62,851,189	\$ 167,169
Federal sources	7,407,809	12,509,100	11,426,937	(1,082,163)
Other State sources <sup>1</sup>	25,391,683	26,208,978	27,443,066	1,234,088
Other local sources	7,489,370	6,759,566	7,036,507	276,941
<b>Total Revenues</b>	<b>99,769,109</b>	<b>108,161,664</b>	<b>108,757,699</b>	<b>596,035</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	56,331,713	55,875,753	55,083,408	792,345
Classified salaries	14,168,084	14,442,098	14,355,234	86,864
Employee benefits <sup>1</sup>	20,488,368	20,997,420	23,386,179	(2,388,759)
Books and supplies	4,733,193	6,541,748	4,197,368	2,344,380
Services and operating expenditures	13,208,808	14,939,011	13,888,718	1,050,293
Other outgo	(261,386)	177,622	(243,909)	421,531
Capital outlay	99,100	19,334	75,583	(56,249)
Debt service - principal	-	-	216,034	(216,034)
Debt service - interest	-	-	182,384	(182,384)
<b>Total Expenditures</b>	<b>108,767,880</b>	<b>112,992,986</b>	<b>111,140,999</b>	<b>1,851,987</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(8,998,771)</b>	<b>(4,831,322)</b>	<b>(2,383,300)</b>	<b>2,448,022</b>
<b>Fund Balance - Beginning</b>	<b>20,836,348</b>	<b>20,836,348</b>	<b>20,836,348</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 11,837,577</b>	<b>\$ 16,005,026</b>	<b>\$ 18,453,048</b>	<b>\$ 2,448,022</b>

<sup>1</sup> On behalf payments of \$2,228,129 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

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*SUPPLEMENTARY INFORMATION*

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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through	
		Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I, Basic Grants	84.010	14981	\$ 3,098,503
Title I, ARRA Basic Grants Low Income and Neglected	84.389	15005	1,027,842
Title I, ARRA School Improvement Grant	84.389	15004	93,263
Title I, Part B, Reading First Program	84.357	14787	4,099
Title I, Part C, Migrant Education	84.011	14838	236,701
Title I, Part B, Even Start Migrant Education	84.011	14768	30,000
Title I, School Improvement Grant	84.377	15127	254,037
ARRA State Fiscal Stabilization Fund	84.394	25008	2,750,443
Special Education Cluster			
Local Assistance Entitlement	84.027	13379	2,185,309
ARRA, Local Assistance Private Schools ISPs	84.391	10123	6,811
ARRA Basic Local Assistance	84.391	15003	922,993
Preschool Grants	84.173	13430	74,408
ARRA Preschool Grants	84.392	15000	85,324
Preschool Local Entitlement	84.027A	13682	132,522
ARRA Preschool Local Entitlement	84.391	15002	80,030
Preschool Staff Development	84.173A	13431	1,500
Title II, Part A, Quality Teacher	84.367	14341	1,253,168
Title II, Part A, Administrator Training	84.367	14344	7,823
Title II, Part D, Enhancing Education Through Technology	84.318	14335	16,559
Title II, Part D, ARRA Enhancing Education Through Technology	84.368	15137	44,666
Title III, Limited English Proficiency	84.365	14346	833,204
Total U.S. Department of Education			<u>13,139,205</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)</b>			
Passed through CDE:			
Medi-Cal Billing Option	93.778	10013	157,236
Medi-Cal Administrative Activities (MAA)	93.778	10060	230,000
Total U.S. Department of Health and Human Services			<u>387,236</u>

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

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U.S. DEPARTMENT OF AGRICULTURE

Passed through CDE:

National School Lunch Program	10.553	13390	4,310,464
Meal Supplements	10.556	14198	306,398
Especially Needy Breakfast	10.559	13004	1,298,835
Summer Program	10.559	13004	36,204
Fresh Fruit & Vegetables	10.582	14968	204,274
Commodity Fair Market Value <sup>[1]</sup>	10.565	13525	412,052

Total U.S. Department of Agriculture

6,568,227

Total Expenditures of Federal Awards

\$ 20,094,668

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

See accompanying note to supplementary information.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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### ORGANIZATION

The Alum Rock Union Elementary School District was organized in 1930 under the laws of the State of California. There are eighteen elementary schools, 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

MEMBER	OFFICE	TERM EXPIRES
Dolores Marquez	President	2012
Esau Ruiz Herrera	Vice President	2012
Darcie Green	Clerk	2014
Frank Chavez	Member	2014
Scott Pham	Member	2014

### ADMINISTRATION

NAME	TITLE
Jose Manzo	Superintendent
Laura Phan	Assistant Superintendent, Business Services
Melina Nguyen	Director of Fiscal Services

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2011

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	Amended Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,409	1,414
First through third	4,229	4,231
Fourth through sixth	3,987	3,972
Seventh and eighth	2,198	2,193
Home and hospital	2	2
Special education	402	405
Total Elementary	<u>12,227</u>	<u>12,217</u>

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days	Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirements	Actual Minutes	Traditional Calendar	
Kindergarten	32,010	31,121	36,000	35,000	36,000	180	Complied
Grades 1-3							
Grade 1	45,380	44,119	50,400	49,000	51,160	180	Complied
Grade 2	45,380	44,119	50,400	49,000	51,160	180	Complied
Grade 3	45,380	44,119	50,400	49,000	51,160	180	Complied
Grades 4-6							
Grade 4	51,600	50,167	54,000	52,500	54,760	180	Complied
Grade 5	51,600	50,167	54,000	52,500	54,760	180	Complied
Grade 6	51,600	50,167	54,000	52,500	54,760	180	Complied
Grades 7-8							
Grade 7	51,600	50,167	54,000	52,500	54,760	180	Complied
Grade 8	51,600	50,167	54,000	52,500	54,760	180	Complied

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

	<u>Self Insurance Fund</u>
FUND BALANCE	
Balance, June 30, 2011, Unaudited Actuals	\$ 2,635,234
(Increase) Decrease in:	
Accounts payable	(170,396)
Other assets	228,619
Cash with fiscal agent	<u>(73,693)</u>
Balance, June 30, 2011, Audited Financial Statements	<u>\$ 2,619,764</u>

See accompanying note to supplementary information.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

	(Budget)			
	2012 <sup>1</sup>	2011	2010	2009
GENERAL FUND				
Revenues	\$ 102,997,866	\$ 108,757,699	\$ 114,059,691	\$ 118,474,576
Other sources and transfers in	-	-	-	671,169
Total Revenues and Other Sources	102,997,866	108,757,699	114,059,691	119,145,745
Expenditures	106,221,873	111,140,999	111,875,445	118,788,840
Other uses and transfers out	-	-	-	332,799
Total Expenditures and Other Uses	106,221,873	111,140,999	111,875,445	119,121,639
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,224,007)	\$ (2,383,300)	\$ 2,184,246	\$ 24,106
ENDING FUND BALANCE	\$ 15,229,041	\$ 18,453,048	\$ 20,836,348	\$ 18,652,102
AVAILABLE RESERVES <sup>2</sup>	\$ 13,022,414	\$ 15,906,226	\$ 15,745,712	\$ 13,571,260
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	12.26%	14.60%	14.36%	11.64%
LONG-TERM OBLIGATIONS	\$ 100,881,175	\$ 103,895,915	\$ 106,513,410	\$ 86,349,649
AVERAGE DAILY ATTENDANCE AT P-2	11,986	12,227	12,423	12,889

The General Fund balance has decreased by \$199,054 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$3,224,007 (17 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in the past two years and incurred an operating deficit during the 2010-11 fiscal year. The District anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations increased by \$17,779,672 over the past two years.

Average daily attendance decreased by 662 over the past two years. Additional decrease of 241 ADA is anticipated during fiscal year 2011-2012.

<sup>1</sup> Budget 2012 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

<sup>3</sup> On behalf payments of \$2,228,129, \$2,245,969, and \$2,522,303, have been excluded from the actual revenues and expenditures for the years ended June 30, 2011, 2010 and 2009, respectively.

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING BALANCE SHEET  
 JUNE 30, 2011

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund
<b>ASSETS</b>			
Deposits and investments	\$ 1,637,025	\$ 933,049	\$ 468,050
Receivables	1,084,291	-	-
Stores inventories	303,588	-	-
<b>Total Assets</b>	<u>\$ 3,024,904</u>	<u>\$ 933,049</u>	<u>\$ 468,050</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 198,768	\$ -	\$ -
<b>Total Liabilities</b>	<u>198,768</u>	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>			
Nonspendable	304,588	-	-
Restricted	2,521,548	-	468,050
Committed	-	933,049	-
<b>Total Fund Balances</b>	<u>2,826,136</u>	<u>933,049</u>	<u>468,050</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,024,904</u>	<u>\$ 933,049</u>	<u>\$ 468,050</u>

See accompanying note to supplementary information.

<b>County School Facilities Fund</b>	<b>Special Reserve Capital Outlay Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Tax Override Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 468,005	\$ 572,491	\$ 4,175,720	\$ 41,599	\$ 8,295,939
-	-	2,540	-	1,086,831
-	-	-	-	303,588
<u>\$ 468,005</u>	<u>\$ 572,491</u>	<u>\$ 4,178,260</u>	<u>\$ 41,599</u>	<u>\$ 9,686,358</u>
\$ 561	\$ 49,275	\$ -	\$ -	\$ 248,604
<u>561</u>	<u>49,275</u>	<u>-</u>	<u>-</u>	<u>248,604</u>
-	-	-	-	304,588
467,444	523,216	4,178,260	41,599	8,200,117
-	-	-	-	933,049
<u>467,444</u>	<u>523,216</u>	<u>4,178,260</u>	<u>41,599</u>	<u>9,437,754</u>
<u>\$ 468,005</u>	<u>\$ 572,491</u>	<u>\$ 4,178,260</u>	<u>\$ 41,599</u>	<u>\$ 9,686,358</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>
<b>REVENUES</b>			
Federal sources	\$ 6,156,175	\$ -	\$ -
Other State sources	508,137	467,226	-
Other local sources	252,820	5,459	229,958
<b>Total Revenues</b>	<b>6,917,132</b>	<b>472,685</b>	<b>229,958</b>
<b>EXPENDITURES</b>			
Current			
Pupil services:			
Food services	6,411,730	-	-
Administration:			
All other administration	277,739	-	-
Plant services	11,964	-	-
Facility acquisition and construction	-	4,498	164,415
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>6,701,433</b>	<b>4,498</b>	<b>164,415</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>215,699</b>	<b>468,187</b>	<b>65,543</b>
<b>Fund Balance - Beginning</b>	<b>2,610,437</b>	<b>464,862</b>	<b>402,507</b>
<b>Fund Balance - Ending</b>	<b>\$ 2,826,136</b>	<b>\$ 933,049</b>	<b>\$ 468,050</b>

See accompanying note to supplementary information.

County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 6,156,175
-	-	75,420	-	1,050,783
58,054	254,060	5,924,203	-	6,724,554
58,054	254,060	5,999,623	-	13,931,512
-	-	-	-	6,411,730
-	-	-	-	277,739
-	-	-	-	11,964
686,408	217,471	-	-	1,072,792
-	-	2,760,000	-	2,760,000
-	-	3,478,333	-	3,478,333
686,408	217,471	6,238,333	-	14,012,558
(628,354)	36,589	(238,710)	-	(81,046)
1,095,798	486,627	4,416,970	41,599	9,518,800
\$ 467,444	\$ 523,216	\$ 4,178,260	\$ 41,599	\$ 9,437,754

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2011. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Numbers	Amount
Total Federal From the Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 17,583,112
ARRA State Fiscal Stabilization Fund	84.394	2,028,404
Receivable write-offs		
Title II, Part B, CA Mathematics and Science Partnerships	84.366	70,008
Title V, Part A, Innovative Education Strategies	84.298A	1,092
Commodities	10.565	412,052
Total Schedule of Expenditures of Federal Awards		<u>\$ 20,094,668</u>

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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

#### Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

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

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

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

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*INDEPENDENT AUDITOR'S REPORTS*

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alum Rock Union Elementary School District as of and for the year ended June 30, 2011, which collectively comprise Alum Rock Union Elementary School District's basic financial statements 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**

The 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alum Rock Union Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alum Rock Union Elementary School District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

## 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*.

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

Vawrinek Trime Day + Co. LLP

Palo Alto, California  
December 2, 2011



**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, 2011. Alum Rock Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Alum Rock Union Elementary School District's management. Our responsibility is to express an opinion on Alum Rock Union Elementary School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Alum Rock Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance with those requirements.

In our opinion, Alum Rock Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.

## Internal Control Over Compliance

The management of Alum Rock Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Alum Rock Union Elementary School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine 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 the Alum Rock Union Elementary School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance

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

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

*Vawrinek Trime Day + Co. LLP*

Palo Alto, California  
December 2, 2011



**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

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

We have audited Alum Rock Union Elementary School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Alum Rock Union Elementary School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. Our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance with those requirements.

In our opinion, Alum Rock Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Alum Rock Union Elementary School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

*Vasinek Trime Day + Co. LLP*

Palo Alto, California  
December 2, 2011

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A, and 84.391-ARRA</u>	<u>Special Education Cluster (includes ARRA)</u>
<u>84.010 and 84.389-ARRA</u>	<u>Title I Basic Grant Cluster (includes ARRA)</u>
<u>84.394-ARRA</u>	<u>ARRA State Fiscal Stabilization Fund</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 600,707</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unqualified</u>
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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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The following finding represents a significant deficiency in internal control over federal programs. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

### 2011-1 Code -50000 - Special Tests and Provisions

#### Criteria or Specific Requirements

Code of Federal Regulation, Chapter 34 section 200.28, requires Districts receiving Title I Basic Grants (CFDA # 84.010 and 84.389-ARRA) that operate schoolwide program to design a comprehensive reform strategy designed to upgrade the entire education program in a Title I school site. The school must develop a comprehensive schoolwide plan that describes how it will achieve the goals it has identified as a result of its needs assessment. The schoolwide plan must:

Identify reform strategies, aligned with the needs assessment, that are research-based and provide opportunities for all children to meet the State's proficient or advanced levels of academic achievement;

1. Provide instruction by highly qualified teachers;
2. Offer high-quality, ongoing professional development;
3. Create strategies to attract highly qualified teachers;
4. Create strategies to increase parental involvement;
5. Develop plans to assist preschool students through the transition from early childhood program to local elementary school programs;

#### Condition

During our testing of Title I Basic Grant (84.010 and 84.389-ARRA) exceptions were noted relating to comprehensive schoolwide plans. We tested 4 of 13 Title I sites (Slonaker Academy, Meyer Elementary, Lyndale Elementary, and Cassell Elementary) and found that schoolwide plans did not incorporate item #5 above. Upon further review of all Title I schoolwide plans, we found that the plans did not incorporate strategy design to assist preschool students through the transition from early childhood program to local elementary school programs.

#### Questioned Costs

None.

#### Context

All Title I, Part A school sites.

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

### **FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011**

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#### **Effect**

As a condition of receiving Federal funds, the District must be in compliance with comprehensive schoolwide plan requirements. Funding can be reduced for the exceptions noted.

#### **Cause**

The District was unaware of the requirement for their participating elementary schools.

#### **Recommendation**

The District should conduct an internal review of compliance with comprehensive schoolwide plan for all Title I Basic Grant sites and incorporate the requirement elements.

#### **District Response**

Title I Basic Grant finding has been resolved with the following actions:

1. District staff informed each Title I School of the requirement to address item # 5 by revising the Comprehensive School Plan to include design strategies to assist Preschool students in transitioning from early childhood education programs to local elementary school programs.
2. Schools identified strategies currently used or planned on included them in the Comprehensive School Plans.
3. Comprehensive School Plan revision will be reviewed by the School Site Council.
4. The District's Board of Education has approved all revised Comprehensive School Plans on November 14, 2011.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

### *Financial Statement Findings*

2010-1 Code 30000

#### *Internal Control*

#### **Finding**

##### *Mathson Middle School*

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

##### *Cureton Elementary School*

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

##### *Russo Academy*

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

##### *McEntee Academy*

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

#### **Recommendation**

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

#### **Current Status**

Implemented.

### *Federal Awards Findings*

None reported.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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### *State Awards Findings*

2010-2 Code 40000

#### *Kindergarten Continuance*

##### **Finding**

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

##### **Recommendation**

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

##### **Current Status**

Implemented