

**ALUM ROCK UNION ELEMENTARY  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2008**

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
OF SANTA CLARA COUNTY  
SAN JOSE, CALIFORNIA  
JUNE 30, 2008

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BOARD OF TRUSTEES

| <u>MEMBER</u>       | <u>OFFICE</u>  | <u>TERM EXPIRES</u> |
|---------------------|----------------|---------------------|
| Frank Chavez        | President      | 2010                |
| Patricia Potter     | Vice President | 2010                |
| Gustavo Gonzalez    | Clerk          | 2010                |
| Tanya Freudenberger | Member         | 2008                |
| Abelardo Morales    | Member         | 2008                |

ADMINISTRATION

|                   |   |
|-------------------|---|
| Norma Martinez    | Superintendent                              |
| Jose Manzo        | Deputy Superintendent                       |
| Rebecca G. Wright | Assistant Superintendent, Business Services |
| Irma Manzo        | Director of Fiscal Services                 |

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

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JUNE 30, 2008

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*FINANCIAL SECTION*

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## INDEPENDENT AUDITORS' 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, 2008, 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 2007-08* 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, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008, 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 on pages 3 through 10 and budgetary comparison information on page 45, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion 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 have 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.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Varrinck, Trine, Day & Co. LLP

Palo Alto, California  
December 18, 2008

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

### DISTRICT PROFILE

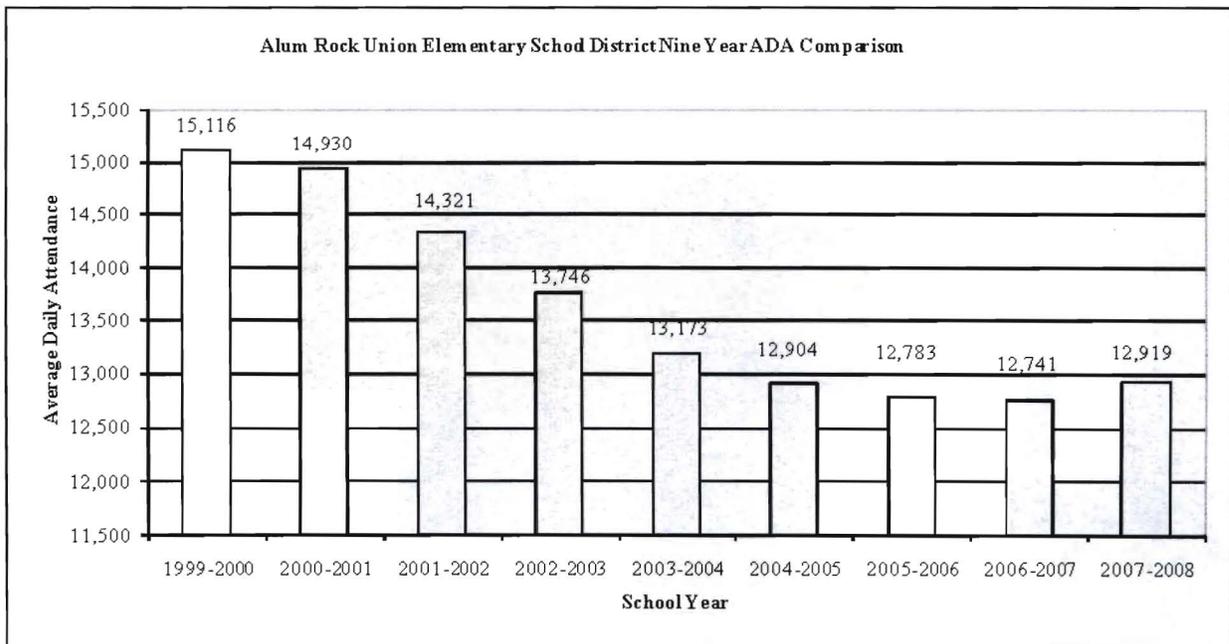
The District was organized in 1930 under the laws of the State of California. There are eighteen elementary schools, 6 middle schools, and 3 Small Schools serving a student population of about 13,500 students. The District occupies 11 square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

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.

From 1999-2000 through 2006-07 the District experienced declining enrollment. This decline resulted in a loss of ADA, which translates into a loss in revenue. Since approximately 60% of the District's revenue is based on ADA and the revenue limit formula, it is important that the District monitor its ADA. Although the enrollment increased slightly for 2007-08, it is unclear whether this is a change in the declining enrollment pattern or as a short term reaction to the economic situation in the region which resulted in families moving back to the area. The last District enrollment forecast indicated that birth rates declined from 2002 – 2007, so the only indication for a change to a growth pattern would be based on housing construction activity. Although the enrollment forecast projected a long term increase in District enrollment due to residential development in the pipeline in 2007, recent economic conditions have slowed the progress of such projects. For example, one 28.5 acre project which was projected to include 1,300 new units that received a General Plan amendment approval from the City of San Jose to move forward in December of 2007 has since stalled. Current District projections are for the ADA for the next two years to remain stable.

Chart 1 below provides the District's nine year ADA comparison.

Chart 1: Nine Year ADA Comparison



# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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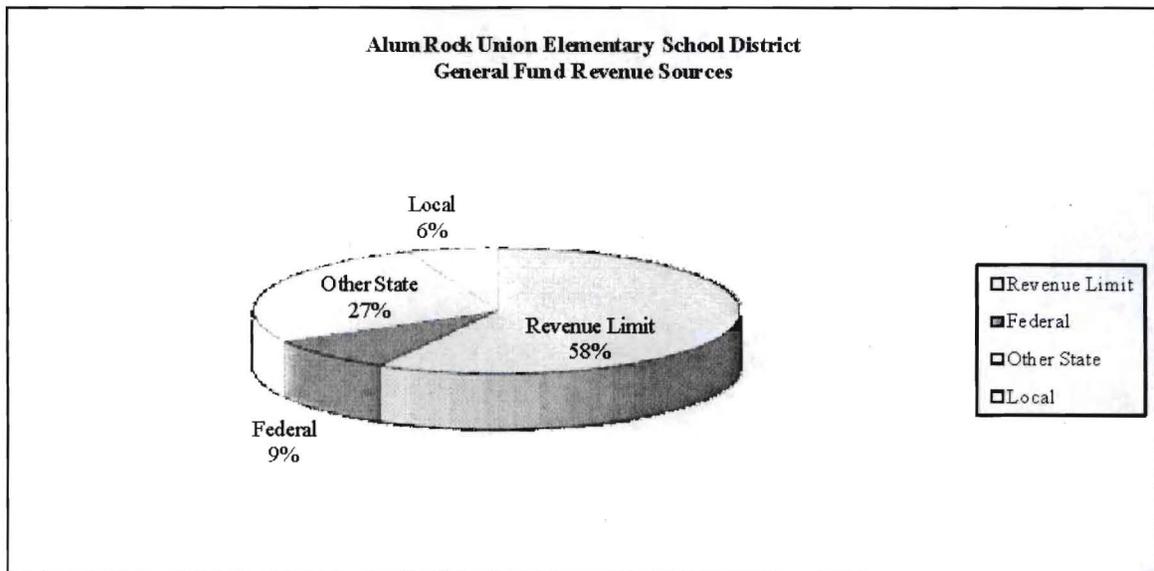
### FINANCIAL HIGHLIGHTS

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

### School District Revenue Limit Funding

The District receives the majority of its funding from Revenue Limit Sources. The District's revenue limit is a direct function of the District's ADA. The actual funding of the revenue limit comes from a combination of local property taxes and State aid. Chart 2 provides a breakout of the sources of revenue for the District.

Chart 2: 2007-2008 General Fund Revenue Sources



# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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Table 1: 2007-2008 General Fund Revenue and Expenditures

|  | (In Thousands)                         |            |                        |
|--|--|------------|------------------------|
|  | (Except for Revenue Limit ADA Amounts) |            |                        |
|  | 2008                                   | 2007       | Increase<br>(Decrease) |
| Total Revenues                                 | \$ 124,657                             | \$ 118,157 | \$ 6,500               |
| Total Compensation Costs                       | \$ 99,586                              | \$ 94,436  | \$ 5,150               |
| Total Expenditures                             | \$ 129,865                             | \$ 116,302 | \$ 13,563              |
| Ending Fund Balance                            | \$ 18,628                              | \$ 23,836  | \$ (5,208)             |
| Ending Available Reserves                      | \$ 13,351                              | \$ 15,695  | \$ (2,344)             |
| Unrestricted Revenue Limit Sources             | \$ 72,624                              | \$ 69,885  | \$ 2,739               |
| Unrestricted Revenue over/(under) Expenditures | \$ 2,708                               | \$ 8,666   | \$ (5,958)             |
| Revenue Limit ADA                              | 12,919                                 | 12,741     | 178                    |
| Base Revenue Limit per ADA                     | \$ 5,539                               | \$ 5,298   | \$ 241                 |

### Revenues and Expenditures

Total revenues increased by approximately \$6.5 million. The majority of this increase was due to an increase of \$3.0 million in restricted State revenues and an increase of \$2.7 million in State revenue limit sources.

The revenue limit ADA grew by 178 and the base revenue limit per ADA increased by \$241 per ADA which resulted in more revenue limit dollars overall.

### Available Reserves

The unrestricted portion of our general fund balance is referred to as our available reserves. The District does not have any other balances in any of its other funds that would augment available reserves. The balance on June 30, 2008 was \$13,350,699. The recommended minimum State guideline for a district of our size is 3% of total expenditures.

### General Fund Budgetary Highlights

Our adopted budget projected an ending balance (restricted and unrestricted) of \$18,565,178 when the 2006-07 actuals were completed and our final budget projection projected an ending balance of \$13,212,705. Our actual ending balance at year-end was \$18,627,996 - a positive variance of \$5,415,291 from our final budget projection.

The favorable expenditure variance resulted primarily from unexpended program funds for restricted programs funded by state categorical funds. These funds were carried over and reflected in the legally restricted ending fund balance so that those programs could be conducted in the 2008-09 fiscal year.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

#### District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

#### Fund Financial Statements

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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

The District has two kinds of funds:

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

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

### Governmental Activities

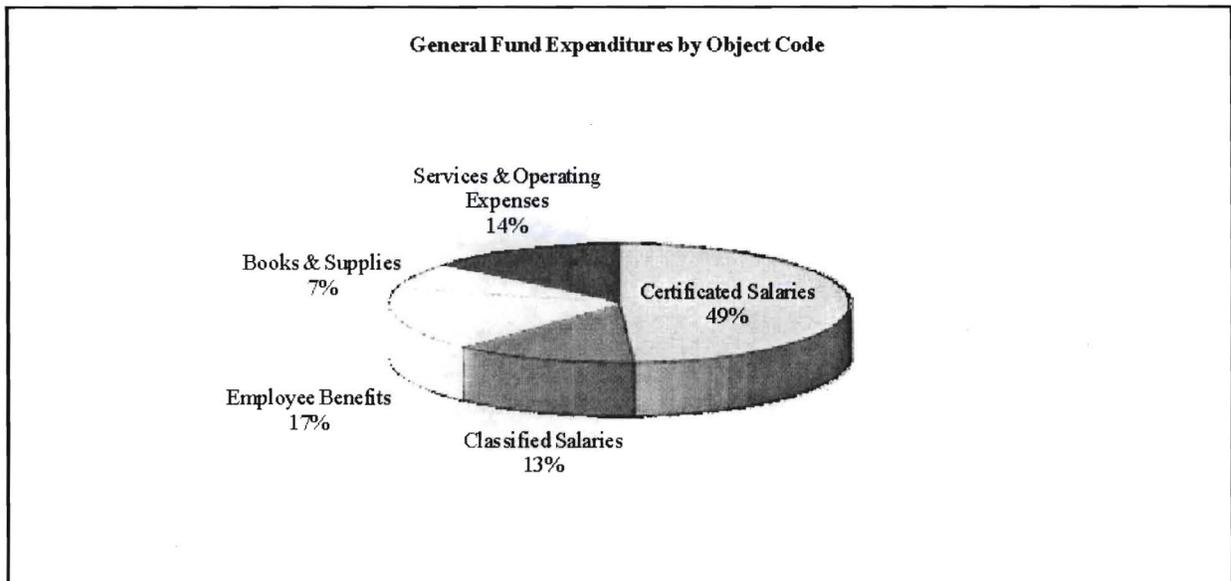
Charts 3 and 4 provide a breakdown of the 2008 General Fund expenditures by Object code and by Function. As is common with virtually all school districts, the majority of expenditures in the General Fund are used for salaries and benefits from a functional cost standpoint; Chart 4 shows that approximately 78% of total general fund expenditures were expended for instruction and instruction-related activities. The District must spend at least 60% of its total certificated salary component on classroom instruction activities. For the current fiscal year, the District spent approximately 60% of certificated salaries on classroom instruction activity.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

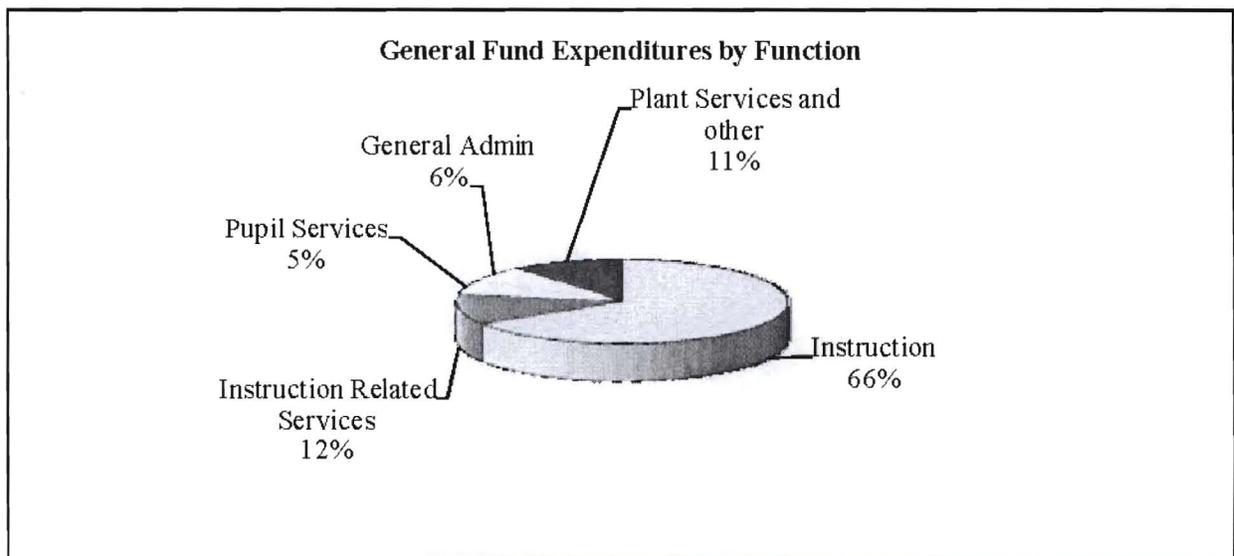
JUNE 30, 2008

Chart 3: General Fund Expenditure by Object



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

Chart 4: General Fund Expenditures by Function



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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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### DEBT ADMINISTRATION

#### Long-Term Obligations

At year-end, the District had \$48.0 million of long-term debt outstanding. This debt can be seen in Table 2 below.

**Table 2:** Debt Administration

|                               | (In Millions)  |                       |                        |
|-------------------------------|----------------|-----------------------|------------------------|
|                               | June 30,       |                       |                        |
|                               | 2008           | 2007<br>(As Restated) | Increase<br>(Decrease) |
| General Obligation Bonds      | \$ 43.3        | \$ 44.9               | \$ (1.6)               |
| Certificates of Participation | 0.4            | 0.8                   | (0.4)                  |
| Accumulated Vacation          | 0.3            | 0.2                   | 0.1                    |
| Capital Leases                | 0.5            | 0.6                   | (0.1)                  |
| Retiree Incentive             | 2.4            | 1.0                   | 1.4                    |
| Claims Liability              | 1.1            | -                     | 1.1                    |
|                               | <u>\$ 48.0</u> | <u>\$ 47.5</u>        | <u>\$ (2.0)</u>        |

### FACTORS BEARING ON THE DISTRICT'S FUTURE

Since approximately 60% of the District's funding is provided by revenue limit sources, the two factors – State COLA and ADA (average daily attendance) - which are used to calculate the revenue limit funding for the District, are key factors to watch.

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

The Legislative Analyst's Office (LAO) report released in November 2008 indicates that the slowing of the economy and the drop in revenues in the state will have a direct impact on the Proposition 98 calculations for the funding for K-12 public education. The LAO recommends an alternative method for reducing spending from the governor's approach, but acknowledged that the Proposition 98 guarantee has been reduced by \$4 billion for the 2008-09 year. At this time, the district has received a recommendation to place in reserve the .68% COLA that was a part of the 2008-09 State Budget for K-12 Education as it was adopted in September with the expectation that these funds may not be forthcoming under the current economic conditions. For the District, this would mean a reduction of \$638 thousand.

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

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2008**

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For the years after 2008-09, the LAO predicts that the Proposition 98 guarantee for 2009-10 (assuming no mid-year reductions) to be approximately \$54.3 billion. This is \$3.8 billion (6.4 percent) below the current year spending level. The LAO believes that General Fund revenues will drop significantly to cause a year-to-year decline in funding. At the same time, Proposition 98 is projected to decrease due to the cost-of-living adjustment (COLA) for 2009-10. The LAO estimates that statutory COLA for K-adult education will be 6 percent, up 0.3 percent from the current year. The LAO COLA estimates then take a sharp decline before leveling out for several years and increasing at the end of the forecast period. Below are the LAO's five-year K-adult COLA estimates:

- 2009-10: 6.0%
- 2010-11: 1.9%
- 2011-12: 1.6%
- 2012-13: 1.9%
- 2013-14: 2.2%

The impact of the current recessionary economy will remain throughout 2009-10 and into the 2010-11 fiscal years.

Since ADA is a function of enrollment, the following dynamics regarding enrollment are important to note:

The District was experiencing declining enrollment until the 2007-08 year when there was a slight increase in enrollment. It appears that the District enrollment has now stabilized. A new impact on district enrollment is the start up of a new charter school in the area. The ACE charter school, chartered by the Santa Clara County Office of Education began operations in the Alum Rock area in the 2008-09 to serve 5<sup>th</sup> through 8<sup>th</sup> grade students. Approximately 60 students living within the ARUSD attendance area were enrolled in ACE as of fall 2008. The resulting decrease in ADA will have a negative impact on the District's finances.

Finally, it is important to note that the District's costs for mandated special education services continue to escalate at a rate higher than funding increases. This has been exacerbated by the lack of a COLA increase in the federal funding for this purpose over the last few years.

### **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 Rebecca G. Wright, Assistant Superintendent of Administrative 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, 2008

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Assets</b>                                   |                                    |
| Deposits and investments                        | \$ 24,387,856                      |
| Receivables                                     | 15,934,814                         |
| Prepaid expenses                                | 595,962                            |
| Deferred charges                                | 734,892                            |
| Stores inventories                              | 301,196                            |
| Capital assets not being depreciated            | 2,854,798                          |
| Capital assets, net of accumulated depreciation | 55,922,639                         |
| <b>Total assets</b>                             | <u>100,732,157</u>                 |
| <b>Liabilities</b>                              |                                    |
| Overdrafts                                      | 316,720                            |
| Accounts payable                                | 11,149,537                         |
| Interest payable                                | 553,336                            |
| Deferred revenue                                | 205,046                            |
| Current portion of long-term obligations        | 3,095,759                          |
| Noncurrent portion of long-term obligations     | 44,966,642                         |
| <b>Total liabilities</b>                        | <u>60,287,040</u>                  |
| <b>Net Assets</b>                               |                                    |
| Invested in capital assets, net of related debt | 14,566,709                         |
| Restricted for:                                 |                                    |
| Legally restricted                              | 5,579,493                          |
| Debt service                                    | 4,402,097                          |
| Capital projects                                | 5,124,621                          |
| Special revenue                                 | 1,273,171                          |
| Unrestricted                                    | 9,499,026                          |
| <b>Total net assets</b>                         | <u>\$ 40,445,117</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, 2008

| Functions/Programs  | Expenses              | Program Revenues                     |  | Net (Expenses)<br>Revenues and<br>Changes in<br>Net Assets |
|---|-----------------------|--------------------------------------|--|--|
|   |                       | Charges for<br>Services and<br>Sales | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                                 |
| <b>Governmental activities:</b>                           |                       |                                      |  |  |
| Instruction   | \$ 91,467,026         | \$ 165,007                           | \$ 21,823,302                            | \$ (69,478,717)  |
| Instruction related activities:                           |                       |                                      |  |  |
| Supervision of instruction                                | 6,850,503             | 207                                  | 5,172,431                                | (1,677,865)  |
| Instructional library, media and technology               | 639,365               | -                                    | 510,040                                  | (129,325)  |
| School site administration                                | 8,285,451             | 244                                  | 992,000                                  | (7,293,207)  |
| Pupil services:   |                       |                                      |  |  |
| Home-to-school transportation                             | 3,018,430             | -                                    | 1,708,779                                | (1,309,651)  |
| Food services   | 6,259,762             | 406,549                              | 5,870,693                                | 17,480   |
| All other pupil services                                  | 3,483,308             | 211                                  | 2,215,283                                | (1,267,814)  |
| General administration:                                   |                       |                                      |  |  |
| Data processing   | 2,183,937             | -                                    | -  | (2,183,937)  |
| All other general administration                          | 5,940,018             | 13,399                               | 1,125,649                                | (4,800,970)  |
| Plant services  | 12,118,351            | 643                                  | 24,023                                   | (12,093,685)   |
| Community services  | 91,671                | -                                    | 72,387                                   | (19,284)   |
| Interest on long-term obligations                         | 2,474,402             | -                                    | -  | (2,474,402)  |
| Other outgo   | 754,776               | -                                    | -  | (754,776)  |
| <b>Total governmental-type activities</b>                 | <b>\$ 143,567,000</b> | <b>\$ 586,260</b>                    | <b>\$ 39,514,587</b>                     | <b>(103,466,153)</b>                                       |
| General revenues and subventions:                         |                       |                                      |  |  |
| Property taxes, levied for general purposes               |                       |                                      |  | 27,265,472   |
| Property taxes, levied for debt service                   |                       |                                      |  | 4,245,202  |
| Taxes levied for other specific purposes                  |                       |                                      |  | 2,187,141  |
| Federal and State aid not restricted to specific purposes |                       |                                      |  | 57,574,410   |
| Interest and investment earnings                          |                       |                                      |  | 1,437,341  |
| Miscellaneous   |                       |                                      |  | 3,818,214  |
|   |                       |                                      | <b>Subtotal, general revenues</b>        | <b>96,527,780</b>  |
| <b>Change in net assets</b>                               |                       |                                      |  | <b>(6,938,373)</b>   |
| Net assets - beginning                                    |                       |                                      |  | 47,383,490   |
| Net assets - ending                                       |                       |                                      |  | <b>\$ 40,445,117</b>                                       |

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2008**

|  | <u>General<br/>Fund</u> | <u>Non Major<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------------|---|---|
| <b>ASSETS</b>                                  |                         |   |   |
| Deposits and investments                       | \$ 14,542,970           | \$ 9,844,886                                | \$ 24,387,856                           |
| Receivables                                    | 14,190,019              | 1,744,795                                   | 15,934,814                              |
| Due from other funds                           | 156,760                 | -   | 156,760                                 |
| Prepaid expenditures                           | 595,962                 | -   | 595,962                                 |
| Stores inventories                             | -                       | 301,196                                     | 301,196                                 |
| <b>Total assets</b>                            | <u>\$ 29,485,711</u>    | <u>\$ 11,890,877</u>                        | <u>\$ 41,376,588</u>                    |
| <b>LIABILITIES AND<br/>FUND BALANCES</b>       |                         |   |   |
| <b>Liabilities:</b>                            |                         |   |   |
| Overdrafts                                     | \$ 1,090                | \$ 315,630                                  | \$ 316,720                              |
| Accounts payable                               | 10,651,579              | 497,958                                     | 11,149,537                              |
| Due to other funds                             | -                       | 156,760                                     | 156,760                                 |
| Deferred revenue                               | 205,046                 | -   | 205,046                                 |
| <b>Total liabilities</b>                       | <u>10,857,715</u>       | <u>970,348</u>                              | <u>11,828,063</u>                       |
| <b>Fund Balances:</b>                          |                         |   |   |
| Reserved for:                                  |                         |   |   |
| Legally restricted balances                    | 4,661,335               | -   | 4,661,335                               |
| Other reservations                             | 615,962                 | 302,196                                     | 918,158                                 |
| Undesignated, reported in:                     |                         |   |   |
| General fund                                   | 13,350,699              | -   | 13,350,699                              |
| Special revenue funds                          | -                       | 1,273,171                                   | 1,273,171                               |
| Debt service funds                             | -                       | 4,220,541                                   | 4,220,541                               |
| Capital projects funds                         | -                       | 5,124,621                                   | 5,124,621                               |
| <b>Total fund balance</b>                      | <u>18,627,996</u>       | <u>10,920,529</u>                           | <u>29,548,525</u>                       |
| <b>Total Liabilities and<br/>Fund Balances</b> | <u>\$ 29,485,711</u>    | <u>\$ 11,890,877</u>                        | <u>\$ 41,376,588</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, 2008**

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

|  |                      |                      |
|--|----------------------|----------------------|
| <b>Total Fund Balance - Governmental Funds</b>   | <b>\$ 29,548,525</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  | \$ 140,556,819       |                      |
| Accumulated depreciation is  | <u>(81,779,382)</u>  | 58,777,437           |
| 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.  |                      |                      |
|  |                      | (553,336)            |
| 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. |                      |                      |
|  |                      | 734,892              |
| Long-term liabilities at year end consist of:  |                      |                      |
| Bonds payable  | \$ (47,168,036)      |                      |
| Unamortized bond premium   | (594,630)            |                      |
| Unamortized defeasance costs   | 4,424,410            |                      |
| Certificates of participation  | (385,000)            |                      |
| Capital leases payable   | (487,472)            |                      |
| Retiree incentive plan   | (2,424,500)          |                      |
| Claims liability   | (1,118,715)          |                      |
| Compensated absences (vacations)   | <u>(308,458)</u>     | <u>(48,062,401)</u>  |
| <b>Total Net Assets - Governmental Activities</b>  |                      | <b>\$ 40,445,117</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, 2008

|  | General<br>Fund      | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|----------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>  |                      |                                   |                                |
| Revenue limit sources                                    | \$ 72,623,851        | \$ -                              | \$ 72,623,851                  |
| Federal sources  | 10,817,126           | 5,436,087                         | 16,253,213                     |
| Other state sources                                      | 33,654,708           | 1,052,354                         | 34,707,062                     |
| Other local sources                                      | 7,561,084            | 5,436,480                         | 12,997,564                     |
| <b>Total Revenues</b>                                    | <b>124,656,769</b>   | <b>11,924,921</b>                 | <b>136,581,690</b>             |
| <b>EXPENDITURES</b>                                      |                      |                                   |                                |
| <b>Current</b>   |                      |                                   |                                |
| Instruction  | 86,527,958           | -                                 | 86,527,958                     |
| Instruction related activities:                          |                      |                                   |                                |
| Supervision of instruction                               | 6,565,258            | -                                 | 6,565,258                      |
| Instructional library, media and technology              | 612,743              | -                                 | 612,743                        |
| School site administration                               | 7,940,457            | -                                 | 7,940,457                      |
| Pupil Services:  |                      |                                   |                                |
| Home-to school transportation                            | 2,892,747            | -                                 | 2,892,747                      |
| Food services  | -                    | 5,999,115                         | 5,999,115                      |
| All other pupil services                                 | 3,338,268            | -                                 | 3,338,268                      |
| General administration:                                  |                      |                                   |                                |
| Data processing  | 2,363,182            | -                                 | 2,363,182                      |
| All other general administration                         | 5,491,499            | 195,835                           | 5,687,334                      |
| Plant services   | 11,854,141           | 9,624                             | 11,863,765                     |
| Facility acquisition and construction                    | 767,455              | 4,369,019                         | 5,136,474                      |
| Community services                                       | 87,854               | -                                 | 87,854                         |
| Other outgo  | 34,288               | 720,488                           | 754,776                        |
| Debt service   |                      |                                   |                                |
| Principal  | 69,122               | 2,795,000                         | 2,864,122                      |
| Interest and other                                       | 27,499               | 2,128,825                         | 2,156,324                      |
| <b>Total Expenditures</b>                                | <b>128,572,471</b>   | <b>16,217,906</b>                 | <b>144,790,377</b>             |
| <b>Excess (deficiency) of revenues over expenditures</b> | <b>(3,915,702)</b>   | <b>(4,292,985)</b>                | <b>(8,208,687)</b>             |
| <b>Other Financing Sources (Uses):</b>                   |                      |                                   |                                |
| Transfers in   | -                    | 1,292,677                         | 1,292,677                      |
| Other sources  | -                    | 9,997,447                         | 9,997,447                      |
| Transfers out  | (1,292,677)          | -                                 | (1,292,677)                    |
| Other uses   | -                    | (9,620,000)                       | (9,620,000)                    |
| <b>Net Financing Sources (Uses)</b>                      | <b>(1,292,677)</b>   | <b>1,670,124</b>                  | <b>377,447</b>                 |
| <b>NET CHANGE IN FUND BALANCES</b>                       | <b>(5,208,379)</b>   | <b>(2,622,861)</b>                | <b>(7,831,240)</b>             |
| <b>Fund Balance - Beginning</b>                          | <b>23,836,375</b>    | <b>13,543,390</b>                 | <b>37,379,765</b>              |
| <b>Fund Balance - Ending</b>                             | <b>\$ 18,627,996</b> | <b>\$ 10,920,529</b>              | <b>\$ 29,548,525</b>           |

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 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008**

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

**Total Net Change in Fund Balances - Governmental Funds** **\$ (7,831,240)**

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.

|                      |                  |           |
|----------------------|------------------|-----------|
| Depreciation expense | \$ (4,583,651)   |           |
| Capital outlays      | <u>5,832,365</u> | 1,248,714 |

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.

(356,944)

Amortization of cost of issuance and discounts 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.

(59,155)

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.

(329,281)

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds.

46,937

Proceeds received from sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(9,665,000)

Premium received from sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(332,447)

Payment of principal on long-term liabilities 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.

9,620,000

New debt defeasance cost related to the issuance of the new bonds is not recognized in the governmental funds. In the government-wide statement, it is capitalized and amortized over the life of the bonds.

178,768

Payment of costs for the issuance of bonds is an expenditure in the governmental funds, but is recorded as a deferred charge and amortized on the statement of net assets over the life of the bond.

198,679

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 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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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). This year, there are no special termination benefits. | (58,769)                     |
| 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.   | 2,425,000                    |
| Repayment of certificates of participation 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.  | 370,000                      |
| Payments to 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.   | 1,030,603                    |
| 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.  | 69,122                       |
| Increase of the District's obligation related to supplemental employee retirement plan (SERP) is not recorded in the governmental fund, but it increases the long-term liabilities in the statement of net assets and increases expenses in the statement of activities.  | (2,424,500)                  |
| Obligation related to claims liability is not recorded in the governmental fund, but it increases the long-term liabilities in the statement of net assets and increases expenses in the statement of activities.   | (1,118,715)                  |
| 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.  | 49,855                       |
| <b>Change in Net Assets of Governmental Activities</b>  | <b><u>\$ (6,938,373)</u></b> |

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, 2008**

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|                          | <u>Agency<br/>Funds</u> |
|--------------------------|-------------------------|
| <b>ASSETS</b>            |                         |
| Deposits and investments | \$ 227,536              |
| <b>Total assets</b>      | <u>\$ 227,536</u>       |
| <br>                     |                         |
| <b>LIABILITIES</b>       |                         |
| Due to student groups    | \$ 227,536              |
| <b>Total liabilities</b> | <u>\$ 227,536</u>       |

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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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, six middle schools, and three new small autonomous schools.

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

#### Component Units

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

The Alameda-Contra Costa Schools Financing Authority's financial activity is presented in the financial statements as the COP Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for Alameda-Contra Costa Schools Financing Authority.

#### Joint Powers Agencies

The District is associated with two joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. These organizations are:

- Association of Low Wealth Schools
- Schools Excess Liability Fund

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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### 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 two broad fund categories: governmental 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 the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

### Non-Major Governmental Funds

#### Special Revenue Funds

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

#### Child Development Fund

The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

#### 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).

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

---

#### 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 established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

#### Bond Interest and Redemption Fund

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

#### Tax Override Fund

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

#### COP Debt Service Fund

The COP Debt Service Fund is used to account for the accumulation of resources for the payment of the principal and interest on certificates of participation that are considered blended component units of the District under generally accepted accounting principles (GAAP).

#### Capital Projects Funds

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

#### Capital Facilities Fund

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### 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.

### Fiduciary Funds

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. 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, 2008

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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.

#### 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.

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.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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### 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. Principal and interest on general long-term obligations, which have not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### 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.

### 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.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### 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

Accumulated unpaid vacation benefits 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.

### 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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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statements only to the extent that they are due for payment during the current year. Bonds and Certificates of Participation payable, capital leases, and long-term loans are not recognized as liabilities in the fund financial statements. Long-term obligations are disclosed as such in the footnotes to the financial statements. Proceeds from long-term debt financing are recorded as revenue in governmental funds and the subsequent repayment of debt, both principal and interest, is recorded as an expenditure of the fund at the time of payment. Interest on long-term debt is not accrued as a liability in governmental funds.

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

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

### Fund Balance Reserves and Designations

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

### Net Assets

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

### 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, 2008

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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.

### New Accounting Pronouncements

*GASB Statement No. 45* - In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. This statement did not have an impact on the District's financial statements.

*GASB Statement No. 48* - In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is not effective until June 30, 2008. This statement did not have an impact on the District's financial statements.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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*GASB Statement No. 49* – In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. The District has not determined its effect on the financial statements.

In May 2007, GASB issued GASBS No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. This statement did not have an impact on the District's financial statements because the District's pensions are separately operated by CalSTRS and CalPERS and are reported for by them.

In June 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Adoption of this statement is not anticipated to have a significant impact on the District's financial statements.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2008**

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In November 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged. The District implemented the requirements of this statement as applicable.

In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The District implemented the requirements of this statement as applicable.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 2 – DEPOSITS AND INVESTMENTS**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

|                                |                      |
|--------------------------------|----------------------|
| Governmental activities        | \$ 24,387,856        |
| Fiduciary funds                | <u>227,536</u>       |
| Subtotal                       | 24,615,392           |
| Deficit cash balance           | <u>(316,720)</u>     |
| Total Deposits and Investments | <u>\$ 24,298,672</u> |

Deposits and investments as of June 30, 2008, consists of the following:

|                                |                      |
|--------------------------------|----------------------|
| Cash on hand and in banks      | \$ 264,854           |
| Cash in revolving              | 21,000               |
| Investments                    | <u>24,329,538</u>    |
| Subtotal                       | 24,615,392           |
| Deficit cash balance           | <u>(316,720)</u>     |
| Total Deposits and Investments | <u>\$ 24,298,672</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, 2008**

**General Authorizations**

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

| Authorized<br>Investment Type           | Maximum<br>Remaining<br>Maturity | Maximum<br>Percentage<br>of Portfolio | Maximum<br>Investment<br>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.

| Investment Type          | Cost                 | Fair<br>Value        | Weighted Average<br>Maturity<br>In Years |
|--------------------------|----------------------|----------------------|--|
| County Pool              | \$ 23,634,335        | \$ 23,683,786        | 1.13                                     |
| U.S. Agencies Securities | 378,483              | 378,483              | 0.50                                     |
| Total                    | <u>\$ 24,012,818</u> | <u>\$ 24,062,269</u> |  |

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investments are not required to be rated nor have it been rated in the County Treasurer pool. The following represents the District's exposure to credit risk:

| Investment Type | Fair Value           | Minimum Legal Rating | Rating as of Year End |                      |
|-----------------|----------------------|----------------------|-----------------------|----------------------|
|                 |                      |                      | AAA                   | Unrated              |
| County Pool     | \$ 23,683,786        | N/A                  | \$ -                  | \$ 23,683,786        |
| U.S. Agencies   | 378,483              | AAA                  | 378,483               | -                    |
| Total           | <u>\$ 24,062,269</u> |                      | <u>\$ 378,483</u>     | <u>\$ 23,683,786</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 agencies. 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, 2008, the District had \$174,432 in bank balances that was exposed to custodial credit risk.

### NOTE 3 – RECEIVABLES

Receivables at June 30, 2008, consisted of the following:

|                     | General              | Nonmajor Funds      | Total                |
|---------------------|----------------------|---------------------|----------------------|
| Federal Government  |                      |                     |                      |
| Categorical aid     | \$ 3,535,545         | \$ 1,600,607        | \$ 5,136,152         |
| State Government    |                      |                     |                      |
| Apportionment       | 4,448,356            | -                   | 4,448,356            |
| Categorical aid     | 2,698,130            | 126,034             | 2,824,164            |
| Lottery             | 803,545              | -                   | 803,545              |
| Local Government    |                      |                     |                      |
| Interest            | 220,808              | 14,825              | 235,633              |
| Other Local Sources | 2,483,635            | 3,329               | 2,486,964            |
| Total               | <u>\$ 14,190,019</u> | <u>\$ 1,744,795</u> | <u>\$ 15,934,814</u> |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

|   | Balance<br>June 30, 2007 | Additions           | Deductions  | Balance<br>June 30, 2008 |
|---|--------------------------|---------------------|-------------|--------------------------|
| <b>Governmental Activities</b>              |                          |                     |             |                          |
| Capital Assets not being depreciated:       |                          |                     |             |                          |
| Land  | \$ 2,408,678             | \$ -                | \$ -        | \$ 2,408,678             |
| Construction in Progress                    | -                        | 446,120             | -           | 446,120                  |
| Total Capital Assets not being depreciated  | <u>2,408,678</u>         | <u>446,120</u>      | <u>-</u>    | <u>2,854,798</u>         |
| Capital Assets being depreciated:           |                          |                     |             |                          |
| Land Improvements                           | 22,304,480               | 1,408,702           | -           | 23,713,182               |
| Buildings and Improvements                  | 105,827,383              | 2,929,893           | -           | 108,757,276              |
| Furniture and Equipment                     | 4,183,913                | 1,047,650           | -           | 5,231,563                |
| Total Capital Assets being depreciated      | <u>132,315,776</u>       | <u>5,386,245</u>    | <u>-</u>    | <u>137,702,021</u>       |
| Total Capital Assets                        | <u>134,724,454</u>       | <u>5,832,365</u>    | <u>-</u>    | <u>140,556,819</u>       |
| Less Accumulated Depreciation:              |                          |                     |             |                          |
| Land Improvements                           | 18,882,251               | 1,130,558           | -           | 20,012,809               |
| Buildings and Improvements                  | 54,891,997               | 3,152,494           | -           | 58,044,491               |
| Furniture and Equipment                     | 3,421,483                | 300,599             | -           | 3,722,082                |
| Total Accumulated Depreciation              | <u>77,195,731</u>        | <u>4,583,651</u>    | <u>-</u>    | <u>81,779,382</u>        |
| Governmental Activities Capital Assets, Net | <u>\$ 57,528,723</u>     | <u>\$ 1,248,714</u> | <u>\$ -</u> | <u>\$ 58,777,437</u>     |

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

|  |                     |
|--|---------------------|
| <b>Governmental Activities</b>                     |                     |
| Instruction  | \$ 2,929,981        |
| Supervision of instruction                         | 229,284             |
| Instructional library, media, and technology       | 21,399              |
| School site administration                         | 277,312             |
| Home-to-school transportation                      | 101,026             |
| Food services                                      | 209,512             |
| All other pupil services                           | 116,585             |
| Data processing                                    | 82,531              |
| All other general administration                   | 198,624             |
| Community services                                 | 3,068               |
| Plant maintenance and operations                   | 414,329             |
| Total Depreciation Expense Governmental Activities | <u>\$ 4,583,651</u> |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 5 – INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances at June 30, 2008, between major and non-major governmental funds are as follows:

|        |         | Due From          |
|--------|---------|-------------------|
|        |         | Nonmajor<br>Funds |
| Due To | General | \$ 156,760        |

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.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2008, consisted of the following:

| Transfer To   | Transfer from     |              |
|---|-------------------|--------------|
|   | Nonmajor<br>Funds | Total        |
| General   | \$ 1,292,677      | \$ 1,292,677 |
| The General Fund transferred to the Cafeteria Fund for meals support.                         |                   | \$ 330,066   |
| The General Fund transferred to the COP Debt Service fund for principal and interest payment. |                   | 398,285      |
| The General Fund transferred to the Deferred Maintenance Fund for the required state match.   |                   | 564,326      |
| Total   |                   | \$ 1,292,677 |

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 6 – ACCOUNTS PAYABLE**

Accounts payable at June 30, 2008, consisted of the following:

|                       | General              | Nonmajor<br>Governmental<br>Funds | Total                |
|-----------------------|----------------------|-----------------------------------|----------------------|
| Vendor payables       | \$ 4,013,769         | \$ 399,995                        | \$ 4,413,764         |
| State apportionment   | 461,806              | -                                 | 461,806              |
| Salaries and benefits | 6,176,004            | 97,963                            | 6,273,967            |
| Total                 | <u>\$ 10,651,579</u> | <u>\$ 497,958</u>                 | <u>\$ 11,149,537</u> |

**NOTE 7 – DEFERRED REVENUE**

Deferred revenue at June 30, 2008, consists of the following:

|                              | General           |
|------------------------------|-------------------|
| Federal financial assistance | \$ 29,314         |
| State categorical aid        | 175,732           |
| Total                        | <u>\$ 205,046</u> |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 8 – LONG-TERM OBLIGATIONS**

**Summary**

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

|                               | Balance<br>July 1, 2007 | Additions            | Deductions           | Balance<br>June 30, 2008 | Due in<br>One Year  |
|-------------------------------|-------------------------|----------------------|----------------------|--------------------------|---------------------|
| General obligation bonds      | \$ 49,191,092           | \$ 10,021,944        | \$ 12,045,000        | \$ 47,168,036            | \$ 2,435,000        |
| Premium                       | 309,120                 | 332,447              | 46,937               | 594,630                  | 46,937              |
| Defeasance costs              | (4,574,923)             | (178,768)            | (329,281)            | (4,424,410)              | (329,281)           |
| Certificates of participation | 755,000                 | -                    | 370,000              | 385,000                  | 385,000             |
| Accumulated vacation - net    | 249,689                 | 58,769               | -                    | 308,458                  | -                   |
| Capital leases                | 556,594                 | -                    | 69,122               | 487,472                  | 73,203              |
| Retiree incentive plan        | 1,030,603               | 2,424,500            | 1,030,603            | 2,424,500                | 484,900             |
| Self insurance plan           | -                       | 1,118,715            | -                    | 1,118,715                | -                   |
|                               | <u>\$ 47,517,175</u>    | <u>\$ 13,777,607</u> | <u>\$ 13,232,381</u> | <u>\$ 48,062,401</u>     | <u>\$ 3,095,759</u> |

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

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2007 | Accreted/ Issued    | Redeemed            | Bonds Outstanding as of June 30, 2008 |
|------------|---------------|---------------|----------------|--------------------------------|---------------------|---------------------|---------------------------------------|
| 1998       | 09/01/18      | 4.65-5.40%    | \$ 6,385,000   | \$ 5,045,000                   | \$ -                | \$ 5,045,000        | \$ -                                  |
| 1998       | 09/01/18      | 4.65-5.40%    | 3,757,782      | 6,321,092                      | 356,944             | -                   | 6,678,036                             |
| 2002       | 09/01/26      | 4.00-7.00%    | 15,025,000     | 13,500,000                     | -                   | 5,255,000           | 8,245,000                             |
| 2003       | 09/01/26      | 2.25-3.70%    | 6,045,000      | 5,765,000                      | -                   | 50,000              | 5,715,000                             |
| 2005       | 09/01/21      | 3.00-4.25%    | 20,090,000     | 18,560,000                     | -                   | 1,695,000           | 16,865,000                            |
| 2007       | 09/21/26      | 4.30-5.00%    | 9,665,000      | -                              | 9,665,000           | -                   | 9,665,000                             |
|            |               |               |                | <u>\$49,191,092</u>            | <u>\$10,021,944</u> | <u>\$12,045,000</u> | <u>\$47,168,036</u>                   |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Debt Service Requirements to Maturity**

The bonds mature through 2027 as follows:

| <u>Fiscal Year</u> | <u>Principal</u>     | <u>Interest to<br/>Maturity</u> | <u>Total</u>         |
|--------------------|----------------------|---------------------------------|----------------------|
| 2009               | \$ 2,710,218         | \$ 1,614,577                    | \$ 4,324,795         |
| 2010               | 2,530,906            | 1,527,917                       | 4,058,823            |
| 2011               | 2,652,393            | 1,447,213                       | 4,099,606            |
| 2012               | 3,124,962            | 1,359,082                       | 4,484,044            |
| 2013               | 3,115,930            | 1,260,715                       | 4,376,645            |
| 2014-2018          | 12,868,375           | 5,045,391                       | 17,913,766           |
| 2019-2023          | 12,090,000           | 2,403,815                       | 14,493,815           |
| 2024-2027          | 5,155,000            | 491,852                         | 5,646,852            |
| Total              | <u>44,247,784</u>    | <u>\$ 15,150,562</u>            | <u>\$ 59,398,346</u> |
| Accretion to date  | <u>2,920,252</u>     |                                 |                      |
|                    | <u>\$ 47,168,036</u> |                                 |                      |

**Certificates of Participation**

In July 1997, the Alameda-Contra Costa Schools Financing Authority issued certificates of participation in the amount of \$7,325,000 with an interest rate of 6.5 percent. As of June 30, 2008, the principal balance outstanding was \$385,000.

The certificates mature through 2009 as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Principal</u>  | <u>Interest</u> | <u>Total</u>      |
|---------------------------------|-------------------|-----------------|-------------------|
| 2009                            | <u>\$ 385,000</u> | <u>\$ 2,872</u> | <u>\$ 387,872</u> |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**Capital Leases**

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

|                        | La Salle          |
|------------------------|-------------------|
| Balance, July 1, 2007  | \$ 556,594        |
| Payments               | 69,122            |
| Balance, June 30, 2008 | <u>\$ 487,472</u> |

The capital leases have minimum lease payments as follows:

| Year Ending<br>June 30,                 | Lease<br>Payment  |
|---|-------------------|
| 2009                                    | \$ 98,678         |
| 2010                                    | 98,677            |
| 2011                                    | 98,677            |
| 2012                                    | 98,678            |
| 2013                                    | 98,677            |
| 2014                                    | 77,009            |
| Total                                   | <u>570,396</u>    |
| Less: Amount Representing Interest      | 82,924            |
| Present Value of Minimum Lease Payments | <u>\$ 487,472</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<br>June 30, | SERP<br>Payment     |
|-------------------------|---------------------|
| 2009                    | \$ 484,900          |
| 2010                    | 484,900             |
| 2011                    | 484,900             |
| 2012                    | 484,900             |
| 2013                    | 484,900             |
| Total                   | <u>\$ 2,424,500</u> |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 9 – FUND BALANCES**

Fund balances are composed of the following elements:

|                      | General              | Nonmajor<br>Governmental<br>Funds | Total                |
|----------------------|----------------------|-----------------------------------|----------------------|
| Reserved             |                      |                                   |                      |
| Revolving cash       | \$ 20,000            | \$ 1,000                          | \$ 21,000            |
| Stores inventory     | -                    | 301,196                           | 301,196              |
| Prepaid expenditures | 595,962              | -                                 | 595,962              |
| Restricted programs  | 4,661,335            | -                                 | 4,661,335            |
| Total Reserved       | <u>5,277,297</u>     | <u>302,196</u>                    | <u>5,579,493</u>     |
| Undesignated         | <u>13,350,699</u>    | <u>10,618,333</u>                 | <u>23,969,032</u>    |
| Total                | <u>\$ 18,627,996</u> | <u>\$ 10,920,529</u>              | <u>\$ 29,548,525</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, 2008, 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 reduction in coverage from the prior year.

**Workers' Compensation**

For fiscal year 2008, the District participated in the Schools Excess Liability Fund (SELF), an insurance purchasing pool. The intent of the SELF is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SELF. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SELF. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SELF. Participation in the SELF is limited to districts that can meet the SELF selection criteria.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

Coverage provided by for property and liability and workers' compensation is as follows:

| Insurance Program / Company Name            | Type of Coverage              | Limits         |
|---|-------------------------------|----------------|
| <b><u>Workers' Compensation Program</u></b> |                               |                |
| Schools Excess Liability Fund               | Workers' Compensation         | Statutory      |
| Schools Excess Liability Fund               | Excess Property and Liability | \$ 146,421,673 |
| The Hartford Insurance Company              | Employee Theft                | \$ 250,000     |
| Coregis Insurance Company                   | Liability                     | \$ 1,000,000   |

**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    |
|----------------------------------|-------------|-------------|-----------|
| Liability Balance, July 1, 2006  | \$ -        | \$ -        | \$ -      |
| Claims and changes in estimates  | 832,621     | 187,960     | 13,398    |
| Liability Balance, June 30, 2007 | 832,621     | 187,960     | 13,398    |
| Claims and changes in estimates  | 2,472,936   | 1,109,398   | 110,462   |
| Claims payments                  | (2,398,000) | (1,100,000) | (110,060) |
| Liability Balance, June 30, 2008 | \$ 907,557  | \$ 197,358  | \$ 13,800 |

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory 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 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 2007-2008 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, 2008, 2007, and 2006, were \$4,803,169, \$4,580,165, and \$4,165,679, 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 death 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, 2008

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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 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$1,665,715, \$1,560,556, and \$1,422,451, 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 and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,631,795, \$2,507,704 and \$2,280,875 for fiscal years ending June 30, 2008, 2007 and 2006, respectively (4.517 percent of salaries subject to CalSTRS). No contributions were made for CalPERS for the year ended June 30, 2008, 2007 or 2006, 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.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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### 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.

#### 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, 2008.

#### Supplemental Employee Retirement Plan (SERP)

At June 30, 2003, 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-five with at least ten years of continuous service will receive a SERP benefit of 6% of the annual salary for a five-year period. The outstanding contract amount at June 30, 2008 for this purpose is \$ 0.

At June 30, 2004, 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-five with at least ten years of continuous service will receive a SERP benefit of 6% of the annual salary for a five-year period. The outstanding contract amount at June 30, 2008 for this purpose is \$ 0.

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 five years, totaling \$2,424,500 and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

#### Operating Leases

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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### NOTE 13 - PARTICIPATION IN JOINT POWER AUTHORITIES

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

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

During the year ended June 30, 2008, the District made payments of \$104,420 to the Schools Excess Liability Fund.

### NOTE 14 - SUBSEQUENT EVENTS

In August 19, 2008, the District issued current interest and capital appreciation general obligation bonds of \$39,000,328 (par value) with current interest rate of 5% and accretion rate ranging from 3% to 4.56%. The new bonds were issued at a premium of \$699,122 and, after paying issuance cost of \$567,660, the net proceeds of \$39,000,328 were deposited in the Building Fund and \$131,462 were deposited in the Debt Service Fund.

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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, 2008

|  | Budgeted Amounts    |                     | Actual<br>(GAAP Basis) | Variances -                         |
|--|---------------------|---------------------|------------------------|-------------------------------------|
|  | (GAAP Basis)        |                     |                        | Favorable                           |
|  | Original            | Final               |                        | (Unfavorable)<br>Final<br>to Actual |
| <b>REVENUES</b>                              |                     |                     |                        |                                     |
| Revenue limit sources                        | \$71,174,942        | \$72,318,000        | \$72,623,851           | \$305,851                           |
| Federal sources                              | 11,032,357          | 11,778,134          | 10,817,126             | (961,008)                           |
| Other state sources                          | 25,740,272          | 30,935,137          | 31,022,913             | 87,776                              |
| Other local sources                          | 5,528,745           | 7,630,332           | 7,561,084              | (69,248)                            |
| <b>Total Revenues<sup>1</sup></b>            | <b>113,476,316</b>  | <b>122,661,603</b>  | <b>122,024,974</b>     | <b>(636,629)</b>                    |
| <b>EXPENDITURES</b>                          |                     |                     |                        |                                     |
| <b>Current</b>                               |                     |                     |                        |                                     |
| Instruction                                  | 73,783,654          | 85,930,838          | 83,896,163             | 2,034,675                           |
| Instruction related activities:              |                     |                     |                        |                                     |
| Supervision of instruction                   | 8,870,055           | 8,875,294           | 6,565,258              | 2,310,036                           |
| Instructional library, media, and technology | 675,825             | 706,451             | 612,743                | 93,708                              |
| School site administration                   | 7,659,824           | 7,683,080           | 7,940,457              | (257,377)                           |
| Pupil services:                              |                     |                     |                        |                                     |
| Home-to-school transportation                | 2,381,107           | 3,102,674           | 2,892,747              | 209,927                             |
| Food services                                | 6,673               | 6,673               | -                      | 6,673                               |
| All other pupil services                     | 3,575,233           | 3,549,820           | 3,338,268              | 211,552                             |
| General administration:                      |                     |                     |                        |                                     |
| Data processing                              | 2,467,610           | 2,903,273           | 2,363,182              | 540,091                             |
| All other general administration             | 5,619,422           | 5,721,905           | 5,491,499              | 230,406                             |
| Plant services                               | 11,064,121          | 11,619,878          | 11,854,141             | (234,263)                           |
| Facility acquisition and construction        | -                   | 930,441             | 767,455                | 162,986                             |
| Ancillary services                           | 496,934             | -                   | -                      | -                                   |
| Community services                           | 73,406              | 120,180             | 87,854                 | 32,326                              |
| Other outgo                                  | 30,000              | 30,000              | 34,288                 | (4,288)                             |
| Debt service                                 |                     |                     |                        |                                     |
| Principal                                    | 1,234,964           | 1,234,964           | 69,122                 | 1,165,842                           |
| Interest                                     | 14,247              | 14,247              | 27,499                 | (13,252)                            |
| <b>Total Expenditures<sup>1</sup></b>        | <b>117,953,075</b>  | <b>132,429,718</b>  | <b>125,940,676</b>     | <b>6,489,042</b>                    |
| <b>Excess (Deficiency) of Revenues</b>       |                     |                     |                        |                                     |
| <b>Over Expenditures</b>                     | <b>(4,476,759)</b>  | <b>(9,768,115)</b>  | <b>(3,915,702)</b>     | <b>(7,125,671)</b>                  |
| <b>Other Financing Sources (Uses):</b>       |                     |                     |                        |                                     |
| Transfers out                                | (794,438)           | (855,555)           | (1,292,677)            | (437,122)                           |
| <b>NET CHANGE IN FUND BALANCES</b>           | <b>(5,271,197)</b>  | <b>(10,623,670)</b> | <b>(5,208,379)</b>     | <b>5,415,291</b>                    |
| <b>Fund Balance - Beginning</b>              | <b>23,836,375</b>   | <b>23,836,375</b>   | <b>23,836,375</b>      | <b>-</b>                            |
| <b>Fund Balance - Ending</b>                 | <b>\$18,565,178</b> | <b>\$13,212,705</b> | <b>\$18,627,996</b>    | <b>\$5,415,291</b>                  |

<sup>1</sup> On behalf payments of \$2,631,795 are not included in the actual revenues and expenditures.

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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, 2008**

| Federal Grantor/Pass-Through<br>Program or Cluster Title          | Federal<br>CFDA<br>Number | Pass-Through<br>Entity<br>Identifying<br>Number | Federal<br>Expenditures    |
|---|---------------------------|---|----------------------------|
| <b>U.S. DEPARTMENT OF EDUCATION</b>                               |                           |   |                            |
| Passed through California Department of Education (CDE):          |                           |   |                            |
| Title I, Basic Grants   | 84.010                    | 14329   | \$ 3,566,949               |
| Title I, Part A, School Improvement State Monitored Schools       | 84.010A                   | 14579   | 5,152                      |
| Title I, Part B, Reading First Program                            | 84.357                    | 14328   | 1,266,717                  |
| Title I, Part C, Migrant Education                                | 84.011                    | 14326   | 267,741                    |
| Title I, Part B, Even Start Migrant Education                     | 84.011                    | 14768   | 25,750                     |
| Special Education   |                           |   |                            |
| Local Assistance  | 84.027                    | 13379   | 2,319,206                  |
| Preschool Grants  | 84.173                    | 13430   | 88,052                     |
| Preschool Local Entitlement                                       | 84.027A                   | 13682   | 138,713                    |
| Preschool Staff Development                                       | 84.173A                   | 13431   | 838                        |
| Drug Free Schools   | 84.186                    | 14347   | 70,054                     |
| Title II, Part B, California Mathematics and Science Partnerships | 84.366                    | 14512   | 749,042                    |
| Title II, Teacher Quality   | 84.367                    | 14341   | 1,156,692                  |
| Enhancing Education Through Technology                            | 84.318                    | 14334   | 25,482                     |
| Innovative Education Strategies                                   | 84.298A                   | 14354   | 36,054                     |
| Limited English Proficiency                                       | 84.365                    | 10084   | 949,482                    |
| Title IV, Part B, 21st Century Community Learning Centers         | 84.287                    | 14349   | 151,203                    |
| Total U.S. Department of Education                                |                           |   | <u>10,817,127</u>          |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                             |                           |   |                            |
| Passed through CDE:   |                           |   |                            |
| Needy Breakfast   | 10.553                    | 13526   | 1,122,267                  |
| Meals Supplement  | 10.553                    | 13390   | 246,248                    |
| National School Lunch   | 10.555                    | 13391   | 3,890,165                  |
| Summer Program  | 10.559                    | 13004   | 177,406                    |
| Commodity Fair Market Value [1]                                   | 10.555                    | 13391   | 374,107                    |
| Total U.S. Department of Agriculture                              |                           |   | <u>5,810,193</u>           |
| Total Expenditures of Federal Awards                              |                           |   | <u><u>\$16,627,320</u></u> |

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

See accompanying note to supplementary information.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

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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, 6 middle schools, and 3 Small Schools serving a student population of about 13,500 students. The District occupies 11 square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

#### GOVERNING BOARD

| MEMBER              | OFFICE         | TERM EXPIRES |
|---------------------|----------------|--------------|
| Frank Chavez        | President      | 2010         |
| Patricia Potter     | Vice President | 2010         |
| Gustavo Gonzalez    | Clerk          | 2010         |
| Tanya Freudenberger | Member         | 2008         |
| Abelardo Morales    | Member         | 2008         |

#### ADMINISTRATION

| NAME              | TITLE                                       |
|-------------------|---|
| Norma Martinez    | Superintendent                              |
| Jose Manzo        | Deputy Superintendent                       |
| Rebecca G. Wright | Assistant Superintendent, Business Services |
| Irma Manzo        | Director of Fiscal Services                 |

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

|                      | Amended<br>Second<br>Period<br>Report | Annual<br>Report       |
|----------------------|---------------------------------------|------------------------|
| ELEMENTARY           |                                       |                        |
| Kindergarten         | 1,613                                 | 1,620                  |
| First through third  | 4,637                                 | 4,633                  |
| Fourth through sixth | 3,763                                 | 3,752                  |
| Seventh and eighth   | 2,443                                 | 2,449                  |
| Home and hospital    | 2                                     | 3                      |
| Special education    | 461                                   | 464                    |
| Total Elementary     | 12,919                                | 12,921                 |
|                      |                                       | Hours of<br>Attendance |
| SUMMER SCHOOL        |                                       |                        |
| Elementary           |                                       | 444,401                |

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2008**

| Grade Level  | 1982-83           | 1986-87                | 2007-08           | Number of Days          |                        | Status        |
|--------------|-------------------|------------------------|-------------------|-------------------------|------------------------|---------------|
|              | Actual<br>Minutes | Minutes<br>Requirement | Actual<br>Minutes | Traditional<br>Calendar | Multitrack<br>Calendar |               |
| Kindergarten | 32,010            | 36,000                 | 36,000            | 180                     | N/A                    | In Compliance |
| Grades 1-3   |                   | 50,400                 |                   |                         |                        |               |
| Grade 1      | 45,380            |                        | 51,165            | 180                     | N/A                    | In Compliance |
| Grade 2      | 45,380            |                        | 51,165            | 180                     | N/A                    | In Compliance |
| Grade 3      | 45,380            |                        | 51,165            | 180                     | N/A                    | In Compliance |
| Grades 4-6   |                   | 54,000                 |                   |                         |                        |               |
| Grade 4      | 51,600            |                        | 54,765            | 180                     | N/A                    | In Compliance |
| Grade 5      | 51,600            |                        | 54,765            | 180                     | N/A                    | In Compliance |
| Grade 6      | 51,600            |                        | 54,765            | 180                     | N/A                    | In Compliance |
| Grades 7-8   |                   | 54,000                 |                   |                         |                        |               |
| Grade 7      | 51,600            |                        | 54,765            | 180                     | N/A                    | In Compliance |
| Grade 8      | 51,600            |                        | 54,765            | 180                     | N/A                    | In Compliance |

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, 2008**

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There were no adjustments between the Unaudited Actual Financial Report and audited financial statements.

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

|   | (Budget)<br>2009 <sup>1</sup> | 2008                  | 2007                 | 2006                 |
|---|-------------------------------|-----------------------|----------------------|----------------------|
| GENERAL FUND  |                               |                       |                      |                      |
| Revenues  | \$ 116,264,049                | \$ 124,656,769        | \$ 118,157,069       | \$108,598,767        |
| Other sources and transfers in                                    | -                             | -                     | 339,807              | -                    |
| Total Revenues<br>and Other Sources                               | <u>116,264,049</u>            | <u>124,656,769</u>    | <u>118,496,876</u>   | <u>108,598,767</u>   |
| Expenditures  | 120,987,926                   | 128,572,471           | 115,022,600          | 101,789,736          |
| Other uses and transfers out                                      | 869,272                       | 1,292,677             | 1,279,183            | 1,564,152            |
| Total Expenditures<br>and Other Uses                              | <u>121,857,198</u>            | <u>129,865,148</u>    | <u>116,301,783</u>   | <u>103,353,888</u>   |
| INCREASE (DECREASE)<br>IN FUND BALANCE                            | <u>\$ (5,593,149)</u>         | <u>\$ (5,208,379)</u> | <u>\$ 2,195,093</u>  | <u>\$ 5,244,879</u>  |
| ENDING FUND BALANCE   | <u>\$ 13,034,847</u>          | <u>\$ 18,627,996</u>  | <u>\$ 23,836,375</u> | <u>\$ 21,641,282</u> |
| AVAILABLE RESERVES <sup>2</sup>                                   | <u>\$ 8,373,513</u>           | <u>\$ 13,350,699</u>  | <u>\$ 15,695,418</u> | <u>\$ 15,530,143</u> |
| AVAILABLE RESERVES AS A<br>PERCENTAGE OF TOTAL OUTGO <sup>3</sup> | <u>6.87%</u>                  | <u>10.49%</u>         | <u>13.79%</u>        | <u>14.70%</u>        |
| LONG-TERM OBLIGATIONS   | <u>\$ 44,966,642</u>          | <u>\$ 48,062,401</u>  | <u>\$ 47,517,175</u> | <u>\$ 50,428,101</u> |
| AVERAGE DAILY<br>ATTENDANCE AT P-2                                | <u>13,005</u>                 | <u>12,919</u>         | <u>12,741</u>        | <u>12,783</u>        |

The General Fund balance has decrease by \$3,013,286 over the past two years. The fiscal year 2008-2009 budget projects a decrease of \$5,593,149 (30 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 an operating surplus in the past two years and a deficit in the past year. The District anticipates incurring an operating deficit during the 2008-2009 fiscal year. Total long-term obligations have decreased by \$2,365,700 over the past two years.

Average daily attendance has increased by 136 over the past two years. Additional growth of 86 ADA is anticipated during fiscal year 2008-2009.

<sup>1</sup> Budget 2009 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On behalf payments of \$2,631,795, \$2,507,704 and \$2,280,875 have been excluded from the calculation of the available reserves percentage for the year ended June 30, 2008, 2007 and 2006 respectively.

See accompanying note to supplementary information.

# **ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

## **EXCESS SICK LEAVE**

**JUNE 30, 2008**

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### **Section 19833.5 (a)(3)(c) Disclosure**

Alum Rock Union Elementary School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent

See accompanying note to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2008**

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| <u>Name of Charter School</u> | <u>Included in<br/>Audit Report</u> |
|-------------------------------|-------------------------------------|
| KIPP Hartwood Academy         | No                                  |

See accompanying note to supplementary information.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

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### 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*.

#### **Local Education Agency Organization Structure**

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

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

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

#### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The 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 requirement, whichever is greater, as required by Education Code Section 46201.

#### **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.

#### **Excess Sick Leave**

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

#### **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.

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*SUPPLEMENTARY INFORMATION - UNAUDITED*

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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008**

|  | Child<br>Development<br>Fund | Cafeteria<br>Fund   | Deferred<br>Maintenance<br>Fund | Capital<br>Facilities<br>Fund |
|--|------------------------------|---------------------|---------------------------------|-------------------------------|
| <b>ASSETS</b>                                  |                              |                     |                                 |                               |
| Deposits and investments                       | \$ 3,054                     | \$ 24,225           | \$ 232,469                      | \$ 479,797                    |
| Receivables                                    | -                            | 1,729,970           | -                               | -                             |
| Stores inventories                             | -                            | 301,196             | -                               | -                             |
| <b>Total assets</b>                            | <b>\$ 3,054</b>              | <b>\$ 2,055,391</b> | <b>\$ 232,469</b>               | <b>\$ 479,797</b>             |
| <b>LIABILITIES AND<br/>FUND BALANCES</b>       |                              |                     |                                 |                               |
| <b>Liabilities:</b>                            |                              |                     |                                 |                               |
| Overdrafts                                     | \$ -                         | \$ 315,630          | \$ -                            | \$ -                          |
| Accounts payable                               | -                            | 224,397             | 18,760                          | -                             |
| Due to other funds                             | -                            | 156,760             | -                               | -                             |
| <b>Total liabilities</b>                       | <b>-</b>                     | <b>696,787</b>      | <b>18,760</b>                   | <b>-</b>                      |
| <b>Fund Balances:</b>                          |                              |                     |                                 |                               |
| Reserved for:                                  |                              |                     |                                 |                               |
| Stores inventories                             | -                            | 301,196             | -                               | -                             |
| Other reservations                             | -                            | 1,000               | -                               | -                             |
| Unreserved:                                    |                              |                     |                                 |                               |
| Undesignated, reported in:                     |                              |                     |                                 |                               |
| Special revenue funds                          | 3,054                        | 1,056,408           | 213,709                         | -                             |
| Debt service funds                             | -                            | -                   | -                               | -                             |
| Capital projects funds                         | -                            | -                   | -                               | 479,797                       |
| <b>Total fund balance</b>                      | <b>3,054</b>                 | <b>1,358,604</b>    | <b>213,709</b>                  | <b>479,797</b>                |
| <b>Total Liabilities and<br/>Fund Balances</b> | <b>\$ 3,054</b>              | <b>\$ 2,055,391</b> | <b>\$ 232,469</b>               | <b>\$ 479,797</b>             |

See accompanying note to supplementary information - unaudited.

| <u>County School<br/>Facilities<br/>Fund</u> | <u>Special Reserve<br/>Capital Outlay<br/>Fund</u> | <u>Bond Interest<br/>and Redemption<br/>Fund</u> | <u>Tax<br/>Override<br/>Fund</u> | <u>COP<br/>Debt Service<br/>Fund</u> | <u>Non Major<br/>Governmental<br/>Funds</u> |
|--|--|--|----------------------------------|--------------------------------------|---|
| \$ 3,630,285                                 | \$ 1,269,340                                       | \$ 3,775,793                                     | \$ 41,599                        | \$ 388,324                           | \$ 9,844,886                                |
| -  | -  | 14,825   | -                                | -                                    | 1,744,795                                   |
| -  | -  | -  | -                                | -                                    | 301,196                                     |
| <u>\$ 3,630,285</u>                          | <u>\$ 1,269,340</u>                                | <u>\$ 3,790,618</u>                              | <u>\$ 41,599</u>                 | <u>\$ 388,324</u>                    | <u>\$ 11,890,877</u>                        |
| \$ -   | \$ -   | \$ -   | \$ -                             | \$ -                                 | \$ 315,630                                  |
| 49,623                                       | 205,178  | -  | -                                | -                                    | 497,958                                     |
| -  | -  | -  | -                                | -                                    | 156,760                                     |
| <u>49,623</u>                                | <u>205,178</u>                                     | <u>-</u>   | <u>-</u>                         | <u>-</u>                             | <u>970,348</u>                              |
| -  | -  | -  | -                                | -                                    | 301,196                                     |
| -  | -  | -  | -                                | -                                    | 1,000                                       |
| -  | -  | -  | -                                | -                                    | 1,273,171                                   |
| -  | -  | 3,790,618  | 41,599                           | 388,324                              | 4,220,541                                   |
| 3,580,662                                    | 1,064,162  | -  | -                                | -                                    | 5,124,621                                   |
| <u>3,580,662</u>                             | <u>1,064,162</u>                                   | <u>3,790,618</u>                                 | <u>41,599</u>                    | <u>388,324</u>                       | <u>10,920,529</u>                           |
| <u>\$ 3,630,285</u>                          | <u>\$ 1,269,340</u>                                | <u>\$ 3,790,618</u>                              | <u>\$ 41,599</u>                 | <u>\$ 388,324</u>                    | <u>\$ 11,890,877</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, 2008**

|  | Child<br>Development<br>Fund | Cafeteria<br>Fund   | Deferred<br>Maintenance<br>Fund | Capital<br>Facilities<br>Fund |
|--|------------------------------|---------------------|---------------------------------|-------------------------------|
| <b>REVENUES</b>  |                              |                     |                                 |                               |
| Federal sources  | \$ -                         | \$ 5,436,087        | \$ -                            | \$ -                          |
| Other state sources  | -                            | 493,269             | 514,044                         | -                             |
| Other local sources  | 3,054                        | 549,863             | 17,034                          | 249,701                       |
| <b>Total Revenues</b>  | <u>3,054</u>                 | <u>6,479,219</u>    | <u>531,078</u>                  | <u>249,701</u>                |
| <b>EXPENDITURES</b>  |                              |                     |                                 |                               |
| Current  |                              |                     |                                 |                               |
| Pupil Services:  |                              |                     |                                 |                               |
| Food services  | -                            | 5,999,115           | -                               | -                             |
| General administration:                                      |                              |                     |                                 |                               |
| All other general administration                             | -                            | 195,835             | -                               | -                             |
| Plant services   | -                            | 9,624               | -                               | -                             |
| Facility acquisition and construction                        | -                            | -                   | 1,292,226                       | 291,381                       |
| Other outgo  | -                            | -                   | -                               | -                             |
| Debt service   |                              |                     |                                 |                               |
| Principal  | -                            | -                   | -                               | -                             |
| Interest and other   | -                            | -                   | -                               | -                             |
| <b>Total Expenditures</b>                                    | <u>-</u>                     | <u>6,204,574</u>    | <u>1,292,226</u>                | <u>291,381</u>                |
| <b>Excess (deficiency) of<br/>revenues over expenditures</b> | <u>3,054</u>                 | <u>274,645</u>      | <u>(761,148)</u>                | <u>(41,680)</u>               |
| <b>Other Financing Sources (Uses):</b>                       |                              |                     |                                 |                               |
| Transfers in   | -                            | 330,066             | 564,326                         | -                             |
| Other sources  | -                            | -                   | -                               | -                             |
| Other uses   | -                            | -                   | -                               | -                             |
| <b>Net Financing<br/>Sources (Uses)</b>                      | <u>-</u>                     | <u>330,066</u>      | <u>564,326</u>                  | <u>-</u>                      |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <u>3,054</u>                 | <u>604,711</u>      | <u>(196,822)</u>                | <u>(41,680)</u>               |
| <b>Fund Balance - Beginning</b>                              | -                            | 753,893             | 410,531                         | 521,477                       |
| <b>Fund Balance - Ending</b>                                 | <u>\$ 3,054</u>              | <u>\$ 1,358,604</u> | <u>\$ 213,709</u>               | <u>\$ 479,797</u>             |

See accompanying note to supplementary information - unaudited.

| County School<br>Facilities<br>Fund | Special Reserve<br>Capital<br>Fund | Bond Interest<br>and Redemption<br>Fund | Tax<br>Override<br>Fund | COP<br>Debt Service<br>Fund | Nonmajor<br>Governmental<br>Funds |
|-------------------------------------|------------------------------------|---|-------------------------|-----------------------------|-----------------------------------|
| \$ -                                | \$ -                               | \$ -                                    | \$ -                    | \$ -                        | \$ 5,436,087                      |
| -                                   | -                                  | 45,041                                  | -                       | -                           | 1,052,354                         |
| 235,145                             | 110,107                            | 4,270,407                               | -                       | 1,169                       | 5,436,480                         |
| <u>235,145</u>                      | <u>110,107</u>                     | <u>4,315,448</u>                        | <u>-</u>                | <u>1,169</u>                | <u>11,924,921</u>                 |
| -                                   | -                                  | -                                       | -                       | -                           | 5,999,115                         |
| -                                   | -                                  | -                                       | -                       | -                           | 195,835                           |
| -                                   | -                                  | -                                       | -                       | -                           | 9,624                             |
| 1,428,184                           | 1,357,228                          | -                                       | -                       | -                           | 4,369,019                         |
| 720,488                             | -                                  | -                                       | -                       | -                           | 720,488                           |
| -                                   | -                                  | 2,425,000                               | -                       | 370,000                     | 2,795,000                         |
| -                                   | -                                  | 2,109,212                               | -                       | 19,613                      | 2,128,825                         |
| <u>2,148,672</u>                    | <u>1,357,228</u>                   | <u>4,534,212</u>                        | <u>-</u>                | <u>389,613</u>              | <u>16,217,906</u>                 |
| <u>(1,913,527)</u>                  | <u>(1,247,121)</u>                 | <u>(218,764)</u>                        | <u>-</u>                | <u>(388,444)</u>            | <u>(4,292,985)</u>                |
| -                                   | -                                  | -                                       | -                       | 398,285                     | 1,292,677                         |
| -                                   | -                                  | 9,997,447                               | -                       | -                           | 9,997,447                         |
| -                                   | -                                  | (9,620,000)                             | -                       | -                           | (9,620,000)                       |
| -                                   | -                                  | 377,447                                 | -                       | 398,285                     | 1,670,124                         |
| <u>(1,913,527)</u>                  | <u>(1,247,121)</u>                 | <u>158,683</u>                          | <u>-</u>                | <u>9,841</u>                | <u>(2,622,861)</u>                |
| 5,494,189                           | 2,311,283                          | 3,631,935                               | 41,599                  | 378,483                     | 13,543,390                        |
| <u>\$ 3,580,662</u>                 | <u>\$ 1,064,162</u>                | <u>\$ 3,790,618</u>                     | <u>\$ 41,599</u>        | <u>\$ 388,324</u>           | <u>\$ 10,920,529</u>              |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED  
JUNE 30, 2008**

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**NOTE 1 - PURPOSE OF SCHEDULES**

**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 AUDITORS' REPORTS*

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**INDEPENDENT AUDITORS' 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, 2008, which collectively comprise Alum Rock Union Elementary School District's basic financial statements and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
December 18, 2008



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

**Compliance**

We have audited the compliance of Alum Rock Union Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. 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 requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are 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 items 2008-1.

## 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*A control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis.

*A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-1 to be significant deficiencies.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California  
December 18, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the governmental activities, 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, 2008, and have issued our report thereon dated December 18, 2008. 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 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

|  | Procedures in<br>Audit Guide | Procedures<br>Performed |
|--|------------------------------|-------------------------|
| Attendance Accounting:                         |                              |                         |
| Attendance reporting                           | 8                            | Yes                     |
| Kindergarten continuance                       | 3                            | Yes                     |
| Independent study                              | 23                           | Not Applicable          |
| Continuation education                         | 10                           | Not Applicable          |
| Adult education                                | 9                            | Not Applicable          |
| Regional occupational centers and programs     | 6                            | Not Applicable          |
| Instructional Time:                            |                              |                         |
| School districts                               | 6                            | Yes                     |
| County offices of education                    | 3                            | Not Applicable          |
| Community day schools                          | 9                            | Not Applicable          |
| Morgan-Hart Class Size Reduction               | 7                            | Not Applicable          |
| Instructional Materials:                       |                              |                         |
| General requirements                           | 12                           | Yes                     |
| K-8 only                                       | 1                            | Yes                     |
| 9-12 only                                      | 1                            | Not Applicable          |
| Ratios of Administrative Employees to Teachers | 1                            | Yes                     |
| Classroom Teacher Salaries                     | 1                            | Yes                     |
| Early retirement incentive                     | 4                            | Not Applicable          |

|   | Procedures in<br>Audit Guide | Procedures<br>Performed |
|---|------------------------------|-------------------------|
| Gann limit calculation  | 1                            | Yes                     |
| School Construction Funds:  |                              |                         |
| School District bonds   | 3                            | Not Applicable          |
| State school facilities funds   | 1                            | Not Applicable          |
| Excess sick leave   | 3                            | Yes                     |
| Notice of right to elect California State Teachers Retirement System (CalSTRS) membership | 1                            | Yes                     |
| Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)                              | 2                            | Yes                     |
| State Lottery Funds (California State Lottery Act of 1984)                                | 2                            | Yes                     |
| California School Age Families Education (Cal-SAFE) Program                               | 3                            | Not Applicable          |
| School Accountability Report Card   | 3                            | Yes                     |
| Mathematics and Reading Professional Development  | 4                            | 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          |

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

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

*Vavrinek, Trine, Day & Co. LLP*

Palo Alto, California  
December 18, 2008

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**FINANCIAL STATEMENTS**

|   |                      |
|---|----------------------|
| Type of auditors' report issued:  | <u>Unqualified</u>   |
| Internal control over financial reporting:                                    |                      |
| Material weaknesses identified?   | <u>No</u>            |
| Significant deficiencies identified not considered to be material weaknesses? | <u>None reported</u> |
| Noncompliance material to financial statements noted?                         | <u>No</u>            |

**FEDERAL AWARDS**

|  |            |
|--|------------|
| Internal control over major programs:  |            |
| Material weaknesses identified?  | <u>No</u>  |
| Significant deficiencies identified not considered to be material weaknesses?  | <u>Yes</u> |
| Type of auditors' report issued on compliance for major programs:  | <u>*</u>   |
| * Unqualified for all major programs except for Title II- Mathematics and Science Partnerships, which was qualified. |            |
| Any audit findings disclosed that are required to be reported in accordance with 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>84.010, 84.010A</u> | <u>Title I</u>  |
| <u>84.366</u>          | <u>Title II -Mathematics and Science Partnerships</u> |

|  |                   |
|--|-------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$ 498,820</u> |
| Auditee qualified as low-risk auditee?                                   | <u>Yes</u>        |

**STATE AWARDS**

|   |                      |
|---|----------------------|
| Internal control over State programs:   |                      |
| Material weaknesses identified?   | <u>No</u>            |
| Significant deficiencies identified not considered to be material weaknesses? | <u>None reported</u> |
| Type of auditors' report issued on compliance for State programs:             | <u>Qualified</u>     |

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

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None reported.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133. The findings have been coded as follows:

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

#### 2008-1 Code 50000 – Mathematics and Science Partnership

##### Criteria or Specific Requirements

Federal guidelines require the District to notify private schools within the District's boundaries about the availability of funds related to Title II, Part B, California Mathematics and Science Partnership award.

##### Condition

There were private schools within the District's boundary that were not notified about the availability of funds.

##### Questioned Costs

The District received \$749,042 in funding for this program.

##### Cause

The appropriate level of monitoring was not administered by the department, sufficient to prevent and detect noncompliance with Federal requirements.

##### Effect

Failure to notify private schools to participate in the California Mathematics and Science Partnership program could cause the District to lose funding for California Mathematics and Science Partnership program.

##### Recommendation

We noted that the District invited private school to participate in other programs in a standard letter sent out at the beginning of each school year and we recommend that this program be included in the letter.

##### District Response

The District was notified of the finding and the District decided to implement this procedure from 2008-2009 onwards. As a part of this implementation the District sent notification letters to the three private schools within their boundaries on August 13, 2008. The District followed the letters with

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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direct phone calls to the three private schools. A second follow-up letter and phone call was made to the two private schools that did not respond. The District anticipates final year of funding for the Math and Science Partnership in 2009-2010 and will continue to notify private schools within the District's boundaries about the availability of funds related to that program.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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

| <u>Five Digit Code</u> | <u>AB 3627 Finding Type</u> |
|------------------------|-----------------------------|
| 40000                  | State Compliance            |
| 70000                  | Instructional Materials     |

#### 2008-2 AFTER SCHOOL EDUCATION AND SAFETY PROGRAM - 60000

##### Criteria or Specific Requirements

The District must report the number of students being served through the After School Education and Safety (ASES) program.

##### Condition

We noted that the District did not properly report the total number of students on their State attendance reports for the ASES program. It was noted in several instances that the total number of students served were less than the actual number reported to the State.

##### Questioned Costs

We selected three attendance weeks from twelve school sites for attendance testing. At 8 out of the 12 sites tested, the amount of student days served by the program, as evidenced by attendance source documents maintained by the District, was less than the amount actually reported to the State. A total of 11,019 student days was reported in those three weeks and we were able to verify only 9,388 student days, resulting in a 14.80% error rate. The District received \$3,585,796 in funding for the ASES program in fiscal year ending June 30, 2008, however the attendance data reported for the 2008 fiscal year could impact the 2009 ASES funding that the District will receive. This amount is yet to be determined by the State.

##### Context

Attendance data reported for fiscal year ending June 30, 2008 could impact the funding amounts for the 2009 ASES program revenues.

##### Effect

As a condition to receiving the funds from the State, the District must be in compliance with the requirements of the program reporting requirements. The District could potentially lose funding from the State and could be subject to penalty due to the noncompliance noted above.

##### Cause

The District contracted with agencies to maintain and operate the ASES program. Some of those agencies did not maintain accurate attendance records as mandated by the program requirements.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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The attendance system was not automated and keeping track of manual attendance records from multiple sources was a cumbersome process whereby some attendance records were not properly collected and maintained by the program operators.

#### **Recommendation**

It is recommended that the District maintain accurate recording of the attendance records. It is also recommended that the District provide training to the operators of the program, many of which are contracted, in order to provide accurate attendance records.

#### **District Response**

District has implemented the following corrective actions:

- Personnel from the five contracted agencies were provided student attendance training.
- A student Attendance Manual was developed and distributed to all five contracted agencies.
- Cityspan Data System, a software program to record and maintain daily student attendance data, is now in use by all five contracted agencies.
- Monthly meetings with agency providers have student attendance/record-keeping as a standing agenda item.
- District's ASES administrator is conducting school visits for random attendance checks as well as randomly checking attendance through in Cityspan data base system.
- Daily attendance figures are randomly cross-referenced to the daily snack distribution counts.
- Scanners will be piloted at ASES sites to automate attendance reporting. This will eliminate key-in errors arising from manual input. The District anticipates using scanners for all schools by the second semester.
- A protocol has been implemented for the daily, weekly and monthly collection and storage of student attendance documents.

#### **2008-3 Code 70000 – Instructional Materials**

##### **Criteria or Specific Requirements**

The school district should hold the public hearing or hearings required by Education Code Section 60119 on or before the end of the eighth week from the first day pupils attended school for that year, or, in a school district or county office of education having schools that operate on a multi-track, year-round calendar, on or before the end of the eighth week from the first day pupils attended school for that year on any track that began in August or September.

##### **Condition**

The Public hearing required under EC 60911 was not held until November 1, 2007, while the first day of school was August 27, 2007.

##### **Questioned Costs**

The District received \$923,412 in funding for this program.

##### **Context**

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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All instructional material funds awarded to the District.

**Effect**

Noncompliance with the EC requirements could result in loss of funding.

**Cause**

The appropriate level of monitoring was not administered by the department, sufficient to prevent and detect noncompliance with State requirements.

**Recommendation**

Auditor recommends that the District hold the public hearing within the 8 week period from the first day pupils attended school.

**District Response**

For 2008-2009 school year the public hearing was held within the required time frame. It is the intent of the District to meet all required deadlines and will continue to do so in the future.

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

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008**

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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***

None reported.

***Federal Award Findings***

None reported.

***State Award Findings***

None reported.