

**ALUM ROCK UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
OF SANTA CLARA COUNTY
SAN JOSE, CALIFORNIA
JUNE 30, 2009

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Gustavo Gonzalez	President	2010
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ADMINISTRATION

Jose Manzo	Superintendent
Rebecca G. Wright	Assistant Superintendent, Administrative Services
Irma Manzo	Director of Fiscal Services

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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.

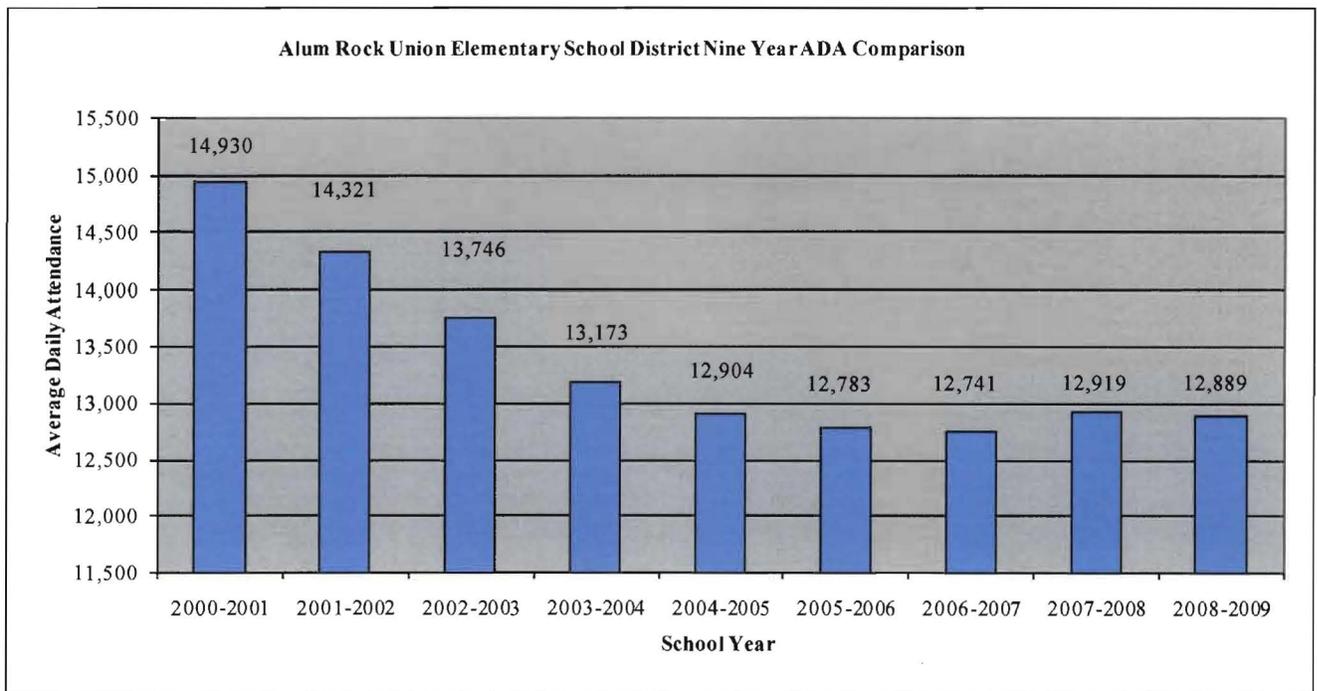
The financials are a reflection of how the Board of Trustees prioritizes the use of the dollars that are received for education. As policy makers, the Trustees have translated educational dollars to educational programs that will serve to enhance the learning opportunities for the children of the Alum Rock Union Elementary School District.

Since 1999 the District has been experiencing declining enrollment. This decline results 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. Current District projections are for one more year of declining followed by a leveling off of ADA. A district enrollment projection study has been commissioned to assist the district in planning.

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

Chart 1: ADA Comparison

Alum Rock Union Elementary School District ADA – Historical & Projected



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

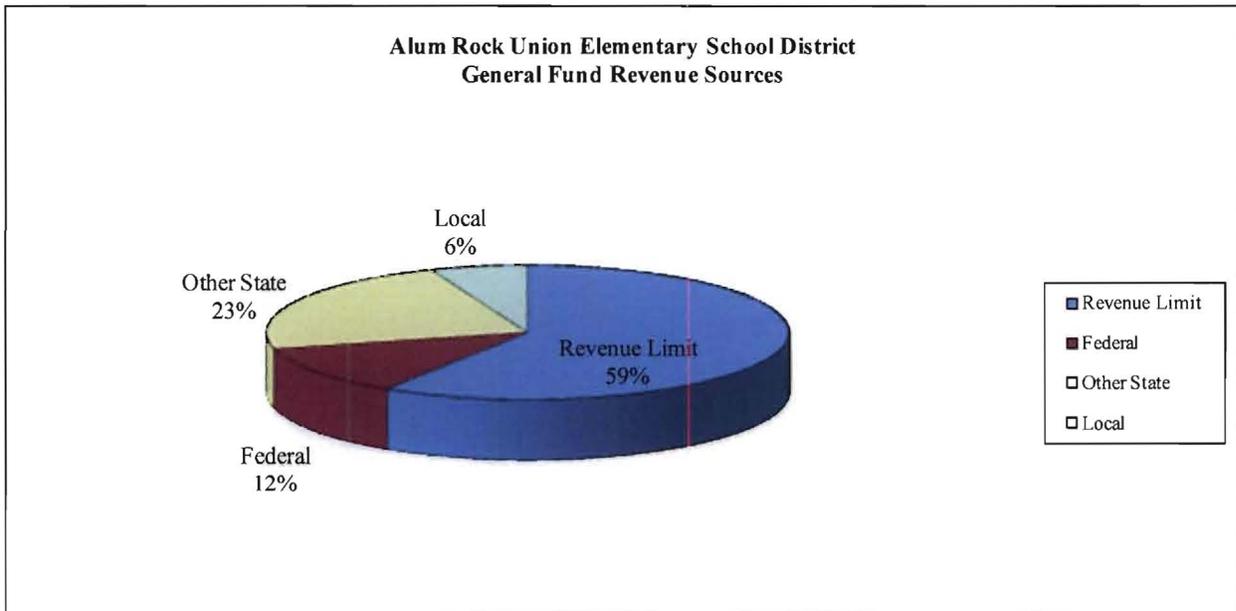
FINANCIAL HIGHLIGHTS

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: 2008-2009 General Fund Revenue Sources



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Table 1: 2008-2009 General Fund Unrestricted Revenue and Expenditures

	(In Thousands)		
	(Except for Revenue Limit ADA Amounts)		
	2009	2008	Increase (Decrease)
Total Revenues	\$ 120,997	\$ 124,657	\$ (3,660)
Total Compensation Costs	\$ 97,089	\$ 99,586	\$ (2,497)
Total Expenditures	\$ 121,311	\$ 129,865	\$ (8,554)
Ending Fund Balance	\$ 18,652	\$ 18,628	\$ 24
Ending Available Reserves	\$ 13,571	\$ 13,351	\$ 220
Unrestricted Revenue Limit Sources	\$ 68,543	\$ 72,624	\$ (4,081)
Unrestricted Revenue over/(under) Expenditures	\$ 304	\$ 2,708	\$ (2,404)
Revenue Limit ADA	12,889	12,919	(30)
Base Revenue Limit per ADA	\$ 5,854	\$ 5,539	\$ 315

Revenues and Expenditures

Total revenues decreased by approximately \$3.6 million. The majority of this decrease was due to a decrease in State revenues.

Although the base revenue limit per ADA increased by \$315, due to the 7.844% deficit factor imposed by the state the net Revenue Limit per ADA was only \$5,395.25, a decrease of \$144.23 from 2007 – 2008. In addition, the Revenue Limit ADA for the district declined by 30. Both factors resulted in a decrease in Revenue Limit Revenue compared to the previous year.

Available Reserves

The unrestricted portion of our general fund balance is referred to as our available reserves. The District does not have any other balances in any of its other funds that would augment available reserves. The balance on June 30, 2009 was \$13,571,260 which includes the required 3% economic uncertainties reserve of \$3,553,514. The recommended minimum State guideline for a district of our size is 3% of total expenditures.

General Fund Budgetary Highlights

Our adopted budget projected an ending balance (restricted and unrestricted) of \$13,034,847 when the 2008-2009 actuals were completed and our final budget projection projected an ending balance of \$9,076,016. Our actual ending balance at year-end was \$18,652,102 - a positive variance of \$9,576,083 from our final budget projection.

The favorable expenditure variance resulted primarily from 2 causes: 1) The projected decrease in revenue limit funding by the state was not enacted by the legislature during 2008 – 2009, but was enacted in July, resulting in greater than projected revenue for 2008 – 2009. 2) An increase in unexpended program funds resulted from not filling vacancies and a reduction in expenditures. The restricted portion of these unexpended funds were reflected in the legally restricted ending fund balance and carried over so that those programs could be conducted in the 2009 – 2010 fiscal year.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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, 2009

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

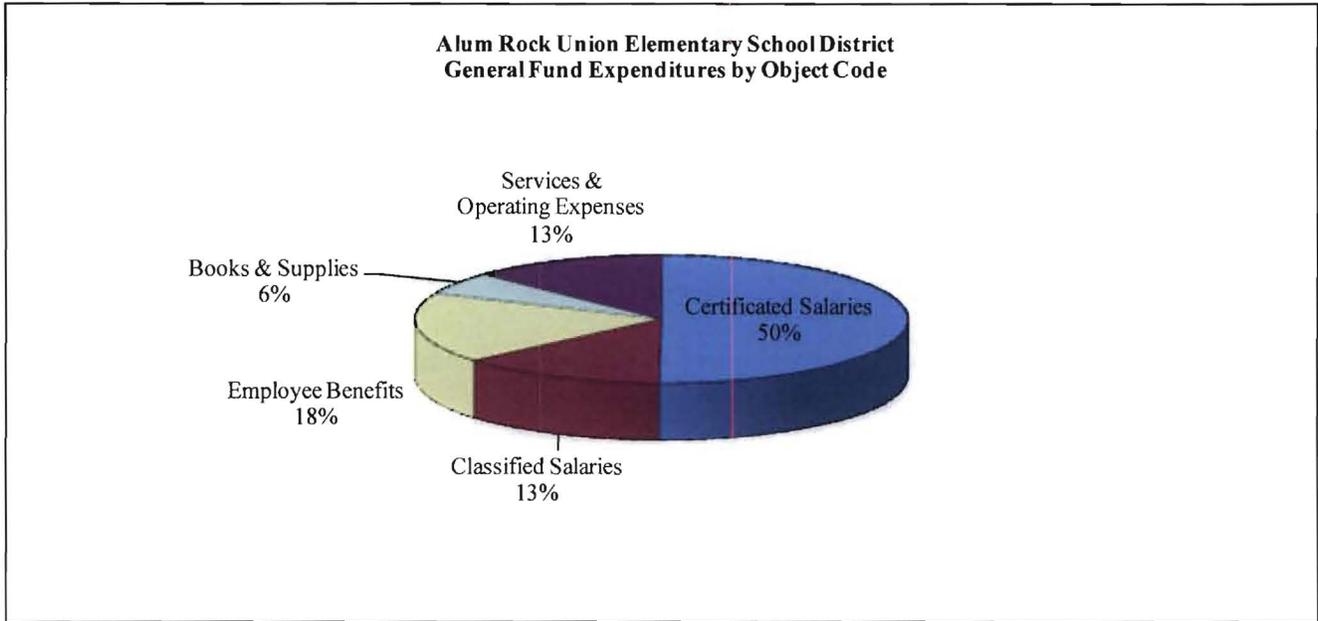
Charts 3 and 4 provide a breakdown of the 2009 General Fund expenditures by Object code and by Function. As is common with virtually all school districts, the majority of expenditures in the General Fund are used for salaries and benefits from a functional cost standpoint; Chart 4 shows that approximately 66% of total general fund expenditures were expended for instruction and instruction-related activities. The District must spend at least 66% of its total certificated salary component on classroom instruction activities. For the current fiscal year, the District spent approximately 50% of certificated salaries on classroom instruction activity.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

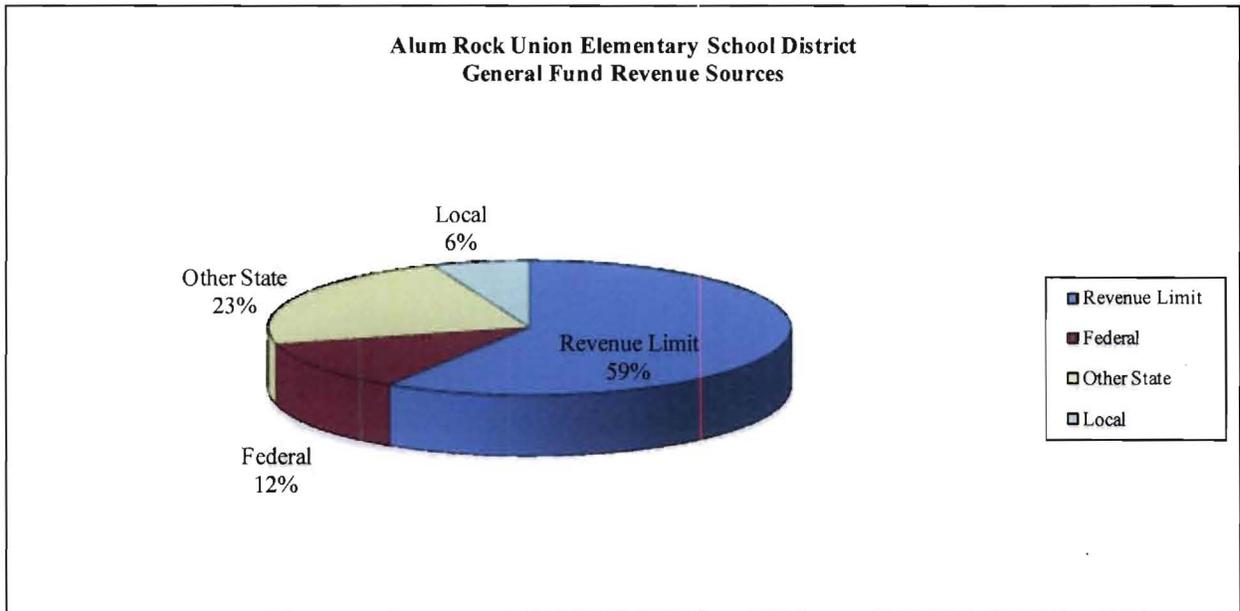
JUNE 30, 2009

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, 2009

DEBT ADMINISTRATION

Long-Term Obligations

At year-end, the District had \$86.3 million of long-term debt outstanding. This debt can be seen in Table 2 below.

Table 2: Debt Administration

	(In Millions)		
	June 30,		
	2009	2008 (As Restated)	Increase (Decrease)
General Obligation Bonds	\$ 80.8	\$ 43.3	\$ 37.5
Certificates of Participation	-	0.4	(0.4)
Accumulated Vacation	0.1	0.3	(0.2)
Capital Leases	1.0	0.5	0.5
Retiree Incentive	3.2	2.4	0.8
Claims Liability	1.2	1.1	0.1
	<u>\$ 86.3</u>	<u>\$ 48.0</u>	<u>\$ 37.4</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 State Budget continues to show less than the projected revenue for the current fiscal year. Mid-year cuts or an additional increase in the deficit factor would significantly impact the revenues for the district.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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, 2009

	<u>Governmental Activities</u>
Assets	
Deposits and investments	\$ 56,966,016
Receivables	18,173,155
Prepaid expenses	679,436
Deferred charges	1,220,691
Stores inventories	290,755
Capital assets not being depreciated	7,539,930
Capital assets, net of accumulated depreciation	58,433,708
Total assets	<u>143,303,691</u>
Liabilities	
Accounts payable	14,697,421
Interest payable	1,272,361
Deferred revenue	2,170,190
Current portion of long-term obligations	3,277,077
Noncurrent portion of long-term obligations	83,072,572
Total liabilities	<u>104,489,621</u>
Net Assets	
Invested in capital assets, net of related debt	12,806,316
Restricted for:	
Legally restricted	8,519,324
Debt service	3,815,016
Capital projects	3,794,704
Special revenue	2,776,482
Unrestricted	7,102,228
Total net assets	<u>\$ 38,814,070</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, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 87,400,500	\$ 25,610	\$ 19,496,351	\$ (67,878,539)
Instruction related activities:				
Supervision of instruction	4,469,988	2,017	3,240,210	(1,227,761)
Instructional library, media and technology	597,973	4	581,528	(16,441)
School site administration	7,848,760	-	1,626,346	(6,222,414)
Pupil services:				
Home-to-school transportation	2,758,379	-	1,688,510	(1,069,869)
Food services	6,313,326	371,900	5,848,514	(92,912)
All other pupil services	3,556,744	2,930	2,122,374	(1,431,440)
General administration:				
Data processing	2,360,259	-	-	(2,360,259)
All other general administration	6,773,208	20,008	1,641,972	(5,111,228)
Plant services	10,160,196	5,563	199,753	(9,954,880)
Community services	46,574	-	45,596	(978)
Interest on long-term obligations	4,945,940	-	-	(4,945,940)
Other outgo	37,712	4,451	150,915	117,654
Total governmental-type activities	\$ 137,269,559	\$ 432,483	\$ 36,642,069	(100,195,007)
General revenues and subventions:				
				27,472,398
Property taxes, levied for general purposes				6,263,299
Property taxes, levied for debt service				2,319,864
Taxes levied for other specific purposes				54,109,293
Federal and State aid not restricted to specific purposes				1,066,450
Interest and investment earnings				7,335,710
Miscellaneous				<u>98,567,014</u>
			Subtotal, general revenues	<u>98,567,014</u>
Change in net assets				<u>(1,627,993)</u>
Net assets - beginning				40,442,063
Net assets - ending				<u>\$ 38,814,070</u>

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

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2009

	General Fund	Building Funds	Non Major Governmental Funds
ASSETS			
Deposits and investments	\$ 13,430,750	\$ 31,577,164	\$ 11,958,102
Receivables	17,643,838	132,599	396,718
Due from other funds	36,422	-	-
Prepaid expenditures	679,436	-	-
Stores inventories	-	-	290,755
Total assets	\$ 31,790,446	\$ 31,709,763	\$ 12,645,575
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,968,154	3,070,432	\$ 658,835
Due to other funds	-	-	36,422
Deferred revenue	2,170,190	-	-
Total liabilities	13,138,344	3,070,432	695,257
Fund Balances:			
Reserved for:			
Legally restricted balances	6,307,442	-	-
Other reservations	699,436	-	291,755
Unreserved:			
Designated	3,553,514	-	-
Undesignated, reported in:			
General fund	8,091,710	-	-
Special revenue funds	-	-	2,776,482
Debt service funds	-	-	5,087,377
Capital projects funds	-	28,639,331	3,794,704
Total fund balance	18,652,102	28,639,331	11,950,318
Total Liabilities and Fund Balances	\$ 31,790,446	\$ 31,709,763	\$ 12,645,575

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

**Total
Governmental
Funds**

\$ 56,966,016
18,173,155
36,422
679,436
290,755

\$ 76,145,784

\$ 14,697,421
36,422
2,170,190

16,904,033

6,307,442
991,191

3,553,514

8,091,710
2,776,482
5,087,377
32,434,035

59,241,751

\$ 76,145,784

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2009**

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

Total Fund Balance - Governmental Funds	\$ 59,241,751	
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	\$ 152,087,077	
Accumulated depreciation is	<u>(86,113,439)</u>	65,973,638
In governmental funds, accrued interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, accrued interest on long-term debt is recognized as it accrues.		
		(1,272,361)
In the governmental funds, costs relating to the issuance of debt are recognized when they are paid. On the government-wide statements, cost of issuance are recorded as a prepaid expense at the net amortized cost on the statement of net assets.		
		1,220,691
Long-term liabilities at year end consist of:		
Bonds payable	\$ (83,722,077)	
Unamortized bond premium	(1,216,096)	
Unamortized defeasance costs	4,095,129	
Capital leases payable	(963,609)	
Retiree incentive plan	(3,191,540)	
Claims liability	(1,221,864)	
Compensated absences (vacations)	<u>(129,592)</u>	(86,349,649)
Total Net Assets - Governmental Activities		<u>\$ 38,814,070</u>

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

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Building Fund	Nonmajor Governmental Funds
REVENUES			
Revenue limit sources	\$ 71,100,033	\$ -	\$ -
Federal sources	15,056,837	-	5,655,065
Other state sources	27,553,423	-	950,397
Other local sources	7,286,586	714,071	7,247,498
Total Revenues	<u>120,996,879</u>	<u>714,071</u>	<u>13,852,960</u>
EXPENDITURES			
Current			
Instruction	83,819,958	-	-
Instruction related activities:			
Supervision of instruction	4,320,468	-	-
Instructional library, media and technology	577,971	-	-
School site administration	7,586,221	-	-
Pupil Services:			
Home-to school transportation	2,666,112	-	-
Food services	1,611	-	6,100,536
All other pupil services	3,437,772	-	-
General administration:			
Data processing	2,281,309	-	-
All other general administration	6,339,545	-	302,735
Plant services	9,643,839	1,294,846	10,510
Facility acquisition and construction	122,254	8,599,875	1,762,036
Community services	45,016	-	-
Other outgo	37,712	-	-
Debt service			
Principal	73,203	-	3,095,218
Interest and other	358,152	567,660	2,626,030
Total Expenditures	<u>121,311,143</u>	<u>10,462,381</u>	<u>13,897,065</u>
Excess (deficiency) of revenues over expenditures	<u>(314,264)</u>	<u>(9,748,310)</u>	<u>(44,105)</u>
Other Financing Sources (Uses):			
Transfers in	-	-	945,486
Other sources	671,169	39,000,328	131,462
Transfers out	(332,799)	(612,687)	-
Net Financing Sources (Uses)	<u>338,370</u>	<u>38,387,641</u>	<u>1,076,948</u>
NET CHANGE IN FUND BALANCES	24,106	28,639,331	1,032,843
Fund Balance - Beginning	18,627,996	-	10,917,475
Fund Balance - Ending	<u>\$ 18,652,102</u>	<u>\$ 28,639,331</u>	<u>\$ 11,950,318</u>

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

**Total
Governmental
Funds**

\$	71,100,033
	20,711,902
	28,503,820
	15,248,155
	<u>135,563,910</u>
	83,819,958
	4,320,468
	577,971
	7,586,221
	2,666,112
	6,102,147
	3,437,772
	2,281,309
	6,642,280
	10,949,195
	10,484,165
	45,016
	37,712
	3,168,421
	3,551,842
	<u>145,670,589</u>
	<u>(10,106,679)</u>
	945,486
	39,802,959
	(945,486)
	<u>39,802,959</u>
	29,696,280
	29,545,471
\$	<u><u>59,241,751</u></u>

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, 2009

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

Total Net Change in Fund Balances - Governmental Funds **\$ 29,696,280**

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	\$ (4,334,057)	
Capital outlays	<u>11,530,258</u>	7,196,201

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. (468,713)

Amortization of cost of issuance of bonds is not recognized in the governmental funds, but it is recorded as a prepaid expense and amortized to operations in the government-wide financial statements. (81,861)

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. 77,656

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. (39,699,450)

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. 567,660

In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). In the current year vacation used exceeded vacation earned by \$178,866. 178,866

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. 2,915,000

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 (Continued) FOR THE YEAR ENDED JUNE 30, 2009

Proceeds received from capital leases 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.	(671,169)
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.	385,000
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.	497,593
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.	195,032
The increase in the District's obligation related to the 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 expense in the statement of activities.	(1,264,633)
Claims liabilities are not recorded in the governmental fund, but they increase long-term liabilities in the statement of net assets and increase expenses in the statement of activities.	(103,149)
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.	(719,025)
Change in Net Assets of Governmental Activities	<u>\$ (1,627,993)</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 272,084
Total assets	<u>\$ 272,084</u>
LIABILITIES	
Due to student groups	\$ 272,084
Total liabilities	<u>\$ 272,084</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Governmental Funds

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

Major Funds

General Fund

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

Building Fund

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

Non-Major Governmental Funds

Special Revenue Funds

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

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).

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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*).

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.*).

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

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

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

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

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Expenses/Expenditures

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

Deposits and Investments

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

Restricted Assets

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

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

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

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

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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, 2009

Budgetary Data

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

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

Property Tax

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

New Accounting Pronouncements

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

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 56,966,016
Fiduciary funds	272,084
Total Deposits and Investments	<u>\$ 57,238,100</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 279,515
Cash in revolving	21,000
Investments	56,937,585
Total Deposits and Investments	<u>\$ 57,238,100</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, 2009

General Authorizations

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

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

Interest Rate Risk

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

Investment Type	Cost	Fair Value	Weighted Average Maturity In Years
County Pool	\$ 56,937,585	\$ 57,156,795	298 days

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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 rated in the County Treasurer pool.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2009, the District did not have significant balances exposed to custodial credit risk.

NOTE 3 – RECEIVABLES

Receivables at June 30, 2009, consisted of the following:

	General	Building Fund	Nonmajor Funds	Total
Federal Government				
Categorical aid	\$ 5,812,858	\$ -	\$ 371,256	\$ 6,184,114
State Government				
Apportionment	6,176,568	-	-	6,176,568
Categorical aid	1,988,780	-	-	1,988,780
Lottery	759,959	-	-	759,959
Local Government				
Interest	119,250	132,599	23,373	275,222
Other Local Sources	2,786,423	-	2,089	2,788,512
Total	<u>\$ 17,643,838</u>	<u>\$ 132,599</u>	<u>\$ 396,718</u>	<u>\$ 18,173,155</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Construction in Progress	446,120	4,685,132	-	5,131,252
Total Capital Assets not being depreciated	2,854,798	4,685,132	-	7,539,930
Capital Assets being depreciated:				
Land Improvements	23,713,182	905,067	-	24,618,249
Buildings and Improvements	108,757,276	4,925,085	-	113,682,361
Furniture and Equipment	5,231,563	1,014,974	-	6,246,537
Total Capital Assets being depreciated	137,702,021	6,845,126	-	144,547,147
Total Capital Assets	140,556,819	11,530,258	-	152,087,077
Less Accumulated Depreciation:				
Land Improvements	20,012,809	615,708	-	20,628,517
Buildings and Improvements	58,044,491	3,119,066	-	61,163,557
Furniture and Equipment	3,722,082	599,283	-	4,321,365
Total Accumulated Depreciation	81,779,382	4,334,057	-	86,113,439
Governmental Activities Capital Assets, Net	\$ 58,777,437	\$ 7,196,201	\$ -	\$ 65,973,638

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

Governmental Activities	
Instruction	\$ 2,813,502
Supervision of instruction	149,520
Instructional library, media, and technology	20,002
School site administration	262,539
Home-to-school transportation	92,267
Food services	211,179
All other pupil services	118,972
Data processing	78,950
All other general administration	206,645
Community services	1,558
Plant maintenance and operations	378,923
Total Depreciation Expense Governmental Activities	\$ 4,334,057

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2009, between major and non-major governmental funds are as follows:

		Due From
		Nonmajor Funds
Due To	General	\$ 36,422

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, 2009, consisted of the following:

		Transfer from Nonmajor Funds
Transfer To		
General Fund		\$ 332,799
Building Fund		612,687
Total		<u>\$ 945,486</u>
The General Fund transferred to the Cafeteria Fund for meals support.		\$ 332,799
The General Fund transferred to the Deferred Maintenance Fund for the required state match.		612,687
Total		<u>\$ 945,486</u>

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, 2009**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

	General	Building Fund	Nonmajor Governmental Funds	Total
Vendor payables	\$ 3,078,284	\$ 3,068,586	\$ 531,009	\$ 6,677,879
State apportionment	5,737	-	4,050	9,787
Salaries and benefits	7,884,133	1,846	123,776	8,009,755
Total	<u>\$ 10,968,154</u>	<u>\$ 3,070,432</u>	<u>\$ 658,835</u>	<u>\$ 14,697,421</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2009, consists of the following:

	General
Federal financial assistance	\$ 1,589,349
State categorical aid	580,841
Total	<u>\$ 2,170,190</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
General obligation bonds	\$ 47,168,036	\$ 39,469,041	\$ 2,915,000	\$ 83,722,077	\$ 2,590,906
Premium	594,630	699,122	77,656	1,216,096	74,902
Defeasance costs	(4,424,410)	-	(329,281)	(4,095,129)	(329,281)
Certificates of participation	385,000	-	385,000	-	-
Accumulated vacation - net	308,458	-	178,866	129,592	-
Capital leases	487,472	671,169	195,032	963,609	205,262
Retiree incentive plan	2,424,500	1,264,633	497,593	3,191,540	735,288
Self insurance plan	1,118,715	103,149	-	1,221,864	-
	<u>\$ 48,062,401</u>	<u>\$ 42,207,114</u>	<u>\$ 3,919,866</u>	<u>\$ 86,349,649</u>	<u>\$ 3,277,077</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, 2008	Accreted/ Issued	Redeemed	Bonds Outstanding as of June 30, 2009
1998	09/01/18	4.65-5.40%	3,757,782	\$ 6,678,036	\$ 468,713	\$ 480,000	\$ 6,666,749
2002	09/01/26	4.00-7.00%	15,025,000	8,245,000	-	300,000	7,945,000
2003	09/01/26	2.25-3.70%	6,045,000	5,715,000	-	75,000	5,640,000
2005	09/01/21	3.00-4.25%	20,090,000	16,865,000	-	1,760,000	15,105,000
2007	09/21/26	4.30-5.00%	9,665,000	9,665,000	-	300,000	9,365,000
2009	8/1/2033	3.00-5.25%	39,000,328	-	39,000,328	-	39,000,328
				<u>\$47,168,036</u>	<u>\$39,469,041</u>	<u>\$ 2,915,000</u>	<u>\$ 83,722,077</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Debt Service Requirements to Maturity

The bonds mature through 2034 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 2,590,906	\$ 3,591,418	\$ 6,182,324
2011	2,652,393	3,633,884	6,286,277
2012	3,161,625	3,606,521	6,768,146
2013	3,164,355	3,570,424	6,734,779
2014	2,601,815	3,598,253	6,200,068
2015-2019	16,056,740	17,596,942	33,653,682
2020-2024	15,145,000	10,602,097	25,747,097
2025-2029	15,385,000	6,832,583	22,217,583
2030-2034	19,780,000	2,675,732	22,455,732
Total	80,537,834	<u>\$ 55,707,854</u>	<u>\$ 136,245,688</u>
Accretion to date	3,184,243		
	<u>\$ 83,722,077</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. The certificates matured in the current fiscal year and had no balance outstanding as of June 30, 2009.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Capital Leases

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

	Equipment
Balance, July 1, 2008	\$ 487,472
Additions	671,169
Payments	195,032
Balance, June 30, 2009	<u>\$ 963,609</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	\$ 245,932
2011	245,932
2012	245,933
2013	245,932
2014	77,009
Total	<u>1,060,738</u>
Less: Amount Representing Interest	97,129
Present Value of Minimum Lease Payments	<u>\$ 963,609</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Supplemental Early Retirement Plan (SERP)

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

Year Ending June 30,	SERP Payment
2010	\$ 735,288
2011	735,288
2012	735,288
2013	735,288
2014	250,388
Total	<u>\$ 3,191,540</u>

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General	Building Fund	Nonmajor Governmental Funds	Total
Reserved				
Revolving cash	\$ 20,000	\$ -	\$ 1,000	\$ 21,000
Stores inventory	-	-	290,755	290,755
Prepaid expenditures	679,436	-	-	679,436
Restricted programs	6,307,442	-	-	6,307,442
Total Reserved	<u>7,006,878</u>	<u>-</u>	<u>291,755</u>	<u>7,298,633</u>
Unreserved				
Designated				
Economic uncertainties	3,553,514	-	-	3,553,514
Undesignated	8,091,710	28,639,331	11,658,563	48,389,604
Total Unreserved	<u>11,645,224</u>	<u>28,639,331</u>	<u>11,658,563</u>	<u>51,943,118</u>
Total	<u>\$ 18,652,102</u>	<u>\$ 28,639,331</u>	<u>\$ 11,950,318</u>	<u>\$ 59,241,751</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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, 2009, the District contracted with Coregis Insurance Company for property and liability insurance coverage and The Hartford Insurance Company for theft insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant change in coverage from the prior year.

Workers' Compensation

For fiscal year 2009, 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.

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, 2007	\$ 832,621	\$ 187,960	\$ 13,398
Claims and changes in estimates	74,936	9,398	402
Liability Balance, June 30, 2008	907,557	197,358	13,800
Claims and changes in estimates	2,228,652	1,377,076	118,808
Claims payments	(2,137,896)	(1,365,235)	(118,256)
Liability Balance, June 30, 2009	<u>\$ 998,313</u>	<u>\$ 209,199</u>	<u>\$ 14,352</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 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, 2009, 2008, and 2007, were \$4,606,595, \$4,803,169, and \$4,580,165, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 2008-2009 was 9.428 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$1,694,963, \$1,665,715, and \$1,560,556, respectively, and equal 100 percent of the required contributions for each year.

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

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

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,522,303, \$2,631,795, and \$2,507,704 for fiscal years ending June 30, 2009, 2008 and 2007, respectively (4.517 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the actual amounts reported in the General Fund Budgetary Schedule.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Site improvements - Districtwide	\$ 675,882	06/30/11
Streetscape - Arbuckle	107,731	06/30/10
Streetscape - Cureton	94,030	06/30/10
HVAC and streetscape - Mathson	157,224	06/30/10
Streetscape - Hubbard	43,537	06/30/10
Administration building - Hubbard	139,299	06/30/11
Streetscape - Dorsa	131,799	06/30/10
Streetscape - Chavez	94,406	06/30/10
Campus expansion - San Antonio	1,635,504	06/30/11
	<u>\$ 3,079,412</u>	

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2009.

Supplemental Employee Retirement Plan (SERP)

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

At June 30, 2009, the District adopted a one-time early retirement incentive program. The District has entered into contracts with certain eligible employees whereby certificated employees who have reached the age of fifty-three with at least ten years of continuous service will receive a SERP variable benefit. Depending on the employee election, payments are to be paid for a period of five to ten years to the employees. The District entered into a nonparticipating agreement whereby the District will pay to United of Omaha a defined contribution amount of \$250,388 for the next five years, totaling \$1,264,633 and United of Omaha will process the benefit payments to the employees based on the parameters specified in the SERP agreement.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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.

NOTE 13 - PARTICIPATION IN JOINT POWER AUTHORITIES

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

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

During the year ended June 30, 2009, the District made payments of \$97,406 to the Schools Excess Liability Fund.

NOTE 14 – CATEGORICAL PROGRAMS ADJUSTMENT

On July 28 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or un-liquidated categorical program balances identified in the July 2009 State Budget package prior to notification of by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenue and the related receivables has been included in these financial statements. The total adjustment of \$2,543,250 was recorded as a reduction of State revenues and accounts receivable. However, the adjustment impacted unrestricted fund balance by \$1,926,036 because the District had \$617,214 in available restricted fund balance to fund this adjustment.

REQUIRED SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variations - Favorable (Unfavorable)
	Original	Final		Final to Actual
	REVENUES			
Revenue limit sources	\$ 72,831,156	\$ 68,261,287	\$ 71,100,033	\$ 2,838,746
Federal sources	9,280,620	10,895,898	15,056,837	4,160,939
Other state sources	27,859,980	28,458,365	25,031,120	(3,427,245)
Other local sources	6,292,293	7,107,098	7,286,586	179,488
Total Revenues¹	116,264,049	114,722,648	118,474,576	3,751,928
EXPENDITURES				
Current				
Instruction	82,236,975	84,346,840	81,297,655	3,049,185
Instruction related activities:				
Supervision of instruction	4,338,850	4,354,787	4,320,468	34,319
Instructional library, media, and technology	616,264	621,993	577,971	44,022
School site administration	7,237,457	7,902,814	7,586,221	316,593
Pupil services:				
Home-to-school transportation	3,075,630	2,818,620	2,666,112	152,508
Food services	6,673	1,123	1,611	(488)
All other pupil services	3,340,648	3,613,407	3,437,772	175,635
General administration:				
Data processing	2,215,722	2,386,305	2,281,309	104,996
All other general administration	5,619,438	5,934,802	6,339,545	(404,743)
Plant services	10,997,499	10,133,340	9,643,839	489,501
Facility acquisition and construction	205,114	737,822	122,254	615,568
Community services	66,107	67,153	45,016	22,137
Other outgo	35,000	35,000	37,712	(2,712)
Debt service				
Principal	993,678	993,678	73,203	920,475
Interest	2,871	2,871	358,152	(355,281)
Total Expenditures¹	120,987,926	123,950,555	118,788,840	5,161,715
Excess (Deficiency) of Revenues Over Expenditures	(4,723,877)	(9,227,907)	(314,264)	(1,409,787)
Other Financing Sources (Uses):				
Other sources	-	-	671,169	671,169
Transfers out	(869,272)	(324,073)	(332,799)	(8,726)
Net Financing Sources (Uses)	(869,272)	(324,073)	338,370	662,443
NET CHANGE IN FUND BALANCES	(5,593,149)	(9,551,980)	24,106	9,576,086
Fund Balance - Beginning	18,627,996	18,627,996	18,627,996	-
Fund Balance - Ending	\$ 13,034,847	\$ 9,076,016	\$ 18,652,102	\$ 9,576,086

¹ On behalf payments of \$2,522,303 are not included in the actual revenues and expenditures.

SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Basic Grants	84.010	14329	\$ 3,592,916
Title I, Part A, School Improvement State Monitored Schools	84.010A	14579	770,183
Title I, Part B, Reading First Program	84.357	14328	14,821
Title I, Part C, Migrant Education	84.011	14326	292,371
Title I, Part B, Even Start Migrant Education	84.011	14768	26,500
Special Education Cluster ^[3]			
Local Assistance Entitlement	84.027	13379	2,301,196
Local Assistance Private Schools ISPs	84.027	10115	18,020
Preschool Grants	84.173	13430	76,563
Preschool Local Entitlement	84.027A	13682	123,220
Preschool Staff Development	84.173A	13431	654
Drug Free Schools	84.186	14347	71,831
Title II, Part B, California Mathematics and Science Partnerships ^[3]	84.366	14512	906,798
Title II, Teacher Quality	84.367	14341	841,773
Title II, Part A, Administrator Training	84.367	14344	11,700
Enhancing Education Through Technology	84.318	14334	48,956
Innovative Education Strategies	84.298A	14354	26,841
Limited English Proficiency ^[3]	84.365	10084	687,440
Title IV, Part B, 21st Century Community Learning Centers	84.287	14349	56,509
Total U.S. Department of Education			<u>9,868,292</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)			
Passed through CDE:			
Medi-Cal Billing Option	93.778	10013	117,630
Medi-Cal Administrative Activities (MAA)	93.778	10060	163,771
Total U.S. Department of Health and Human Services			<u>281,401</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch Program	10.553	13390	4,105,830
Meal Supplements	10.556	14198	277,110
Especially Needy Breakfast	10.559	13004	1,160,178
Summer Program	10.559	13004	62,945
Fresh Fruit & Vegetables	10.582	14968	49,000
Commodity Fair Market Value ^[1]	10.556	13525	323,235
Total U.S. Department of Agriculture			<u>5,978,298</u>
Total Expenditures of Federal Awards ^[2]			<u>\$ 16,127,991</u>

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

[2] Unspent federal grants of \$4,907,146 are excluded from this schedule

[3] Tested as a major program.

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2009

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
Gustavo Gonzalez	President	2010
Esau Ruiz Herrera	Vice President	2012
Dolores Marquez	Clerk	2012
Frank Chavez	Member	2010
Patricia Potter	Member	2010

ADMINISTRATION

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

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	Amended Second Period Report	Annual Report
	<u> </u>	<u> </u>
ELEMENTARY		
Kindergarten	1,573	1,575
First through third	4,710	4,685
Fourth through sixth	3,832	3,799
Seventh and eighth	2,361	2,353
Home and hospital	3	3
Special education	410	412
Total Elementary	<u>12,889</u>	<u>12,827</u>
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		<u>33,352</u>

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2009**

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack 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		54,705	180	N/A	In Compliance
Grade 5	51,600		54,705	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, 2009**

Summarized below is the fund balance reconciliation between the Unaudited Actual Financial Report and the audited financial statements. With regards to the adjustment, the District recorded the revenue and related receivable associated with its portion of the 2008-09 unallocated, unexpended, or un-liquidated categorical program balances identified in the 2009-10 re-appropriation in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. In accordance with Governmental Accounting Standards Board Statement No. 33, an adjustment to reduce revenue and the related receivable has been included in these financial statements. See Note 15, Categorical Programs Adjustment.

	<u>General</u>
FUND BALANCE	
Balance, June 30, 2009, Unaudited Actuals	\$ 21,195,352
Increase (Decrease) in:	
Accounts receivable	<u>(2,543,250)</u>
Balance, June 30, 2009, Audited Financial Statements	<u>\$ 18,652,102</u>

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

	(Budget) 2010 ¹	2009	2008	2007
GENERAL FUND				
Revenues	\$ 107,800,037	\$ 120,996,879	\$ 124,656,769	\$ 118,157,069
Other sources and transfers in	-	671,169	-	339,807
Total Revenues and Other Sources	107,800,037	121,668,048	124,656,769	118,496,876
Expenditures	112,225,121	121,311,143	128,572,471	115,022,600
Other uses and transfers out	439,164	332,799	1,292,677	1,279,183
Total Expenditures and Other Uses	112,664,285	121,643,942	129,865,148	116,301,783
INCREASE (DECREASE) IN FUND BALANCE	\$ (4,864,248)	\$ 24,106	\$ (5,208,379)	\$ 2,195,093
ENDING FUND BALANCE	\$ 13,787,854	\$ 18,652,102	\$ 18,627,996	\$ 23,836,375
AVAILABLE RESERVES ^{2,4}	\$ 7,033,583	\$ 13,571,260	\$ 13,350,699	\$ 15,695,418
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	6.24%	11.40%	10.49%	13.79%
LONG-TERM OBLIGATIONS	\$ 83,072,572	\$ 86,349,649	\$ 48,062,401	\$ 47,517,175
AVERAGE DAILY ATTENDANCE AT P-2	12,889	12,889	12,919	12,741

The General Fund balance has decreased by \$2,641,023 over the past two years. The fiscal year 2009-2010 budget projects a decrease of \$4,864,248 (23 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 one operating deficit and two surpluses in the past three years. The District anticipates incurring an operating deficit during the 2009-2010 fiscal year. Total long-term obligations increased by \$38,832,434 over the past two years.

Average daily attendance decreased by 148 over the past two years. No additional growth of ADA is anticipated during fiscal year 2009-2010.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$2,522,303, \$2,631,795, and \$2,507,704 have been excluded from the calculation of the available reserves percentage for the year ended June 30, 2009, 2008 and 2007 respectively.

⁴ Included in the calculation of available reserves is \$1,926,036 in deferred apportionments that were adjusted down in the current year but received in the subsequent year. Refer to Note 15 for further detail.

See accompanying note to supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2009**

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

See accompanying note to supplementary information.

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2009

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS				
Deposits and investments	\$ 1,843,065	\$ 1,068,579	\$ 538,875	\$ 2,761,572
Receivables	373,345	2,823	2,158	11,020
Stores inventories	290,755	-	-	-
Total assets	<u>\$2,507,165</u>	<u>\$ 1,071,402</u>	<u>\$ 541,033</u>	<u>\$ 2,772,592</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 469,858	\$ 4,050	\$ -	\$ 142,771
Due to other funds	36,422	-	-	-
Total liabilities	<u>506,280</u>	<u>4,050</u>	<u>-</u>	<u>142,771</u>
Fund Balances:				
Reserved for:				
Other reservations	291,755	-	-	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	1,709,130	1,067,352	-	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	541,033	2,629,821
Total fund balance	<u>2,000,885</u>	<u>1,067,352</u>	<u>541,033</u>	<u>2,629,821</u>
Total Liabilities and Fund Balances	<u>\$2,507,165</u>	<u>\$ 1,071,402</u>	<u>\$ 541,033</u>	<u>\$ 2,772,592</u>

See accompanying note to supplementary information.

Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Tax Override Fund	COP Debt Service Fund	Non Major Governmental Funds
\$ 666,006	\$ 5,038,406	\$ 41,599	\$ -	\$ 11,958,102
-	7,372	-	-	396,718
-	-	-	-	290,755
<u>\$ 666,006</u>	<u>\$ 5,045,778</u>	<u>\$ 41,599</u>	<u>\$ -</u>	<u>\$ 12,645,575</u>
\$ 42,156	\$ -	\$ -	\$ -	\$ 658,835
-	-	-	-	36,422
<u>42,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>695,257</u>
-	-	-	-	291,755
-	-	-	-	2,776,482
-	5,045,778	41,599	-	5,087,377
623,850	-	-	-	3,794,704
<u>623,850</u>	<u>5,045,778</u>	<u>41,599</u>	<u>-</u>	<u>11,950,318</u>
<u>\$ 666,006</u>	<u>\$ 5,045,778</u>	<u>\$ 41,599</u>	<u>\$ -</u>	<u>\$ 12,645,575</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, 2009**

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	County School Facilities Fund
REVENUES				
Federal sources	\$ 5,655,065	\$ -	\$ -	\$ -
Other state sources	445,995	439,164	-	-
Other local sources	622,203	15,501	64,086	143,618
Total Revenues	<u>6,723,263</u>	<u>454,665</u>	<u>64,086</u>	<u>143,618</u>
EXPENDITURES				
Current				
Pupil Services:				
Food services	6,100,536	-	-	-
General administration:				
All other general administration	302,735	-	-	-
Plant services	10,510	-	-	-
Facility acquisition and construction	-	213,709	2,850	1,094,459
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>6,413,781</u>	<u>213,709</u>	<u>2,850</u>	<u>1,094,459</u>
Excess (deficiency) of revenues over expenditures	<u>309,482</u>	<u>240,956</u>	<u>61,236</u>	<u>(950,841)</u>
Other Financing Sources (Uses):				
Transfers in	332,799	612,687	-	-
Other sources	-	-	-	-
Net Financing Sources (Uses)	<u>332,799</u>	<u>612,687</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>642,281</u>	<u>853,643</u>	<u>61,236</u>	<u>(950,841)</u>
Fund Balance - Beginning	<u>1,358,604</u>	<u>213,709</u>	<u>479,797</u>	<u>3,580,662</u>
Fund Balance - Ending	<u>\$ 2,000,885</u>	<u>\$ 1,067,352</u>	<u>\$ 541,033</u>	<u>\$ 2,629,821</u>

See accompanying note to supplementary information.

Special Reserve Capital Fund	Bond Interest and Redemption Fund	Tax Override Fund	COP Debt Service Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 5,655,065
-	65,238	-	-	950,397
10,706	6,391,384	-	-	7,247,498
10,706	6,456,622	-	-	13,852,960
-	-	-	-	6,100,536
-	-	-	-	302,735
-	-	-	-	10,510
451,018	-	-	-	1,762,036
-	2,710,218	-	385,000	3,095,218
-	2,622,706	-	3,324	2,626,030
451,018	5,332,924	-	388,324	13,897,065
(440,312)	1,123,698	-	(388,324)	(44,105)
-	-	-	-	945,486
-	131,462	-	-	131,462
-	131,462	-	-	1,076,948
(440,312)	1,255,160	-	(388,324)	1,032,843
1,064,162	3,790,618	41,599	388,324	10,917,475
\$ 623,850	\$ 5,045,778	\$ 41,599	\$ -	\$ 11,950,318

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

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.

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alum Rock Union Elementary School District as of and for the year ended June 30, 2009, which collectively comprise Alum Rock Union Elementary School District's basic financial statements and have issued our report thereon dated December 15, 2009. 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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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.

Vawter Time Day + Co. LLP

Palo Alto, California
December 15, 2009



**INDEPENDENT AUDITOR'S 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, 2009. 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, 2009.

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.

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.

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.

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

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

Varrinek Trine Day + Co. LLP

Palo Alto, California
December 15, 2009



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the governmental activities, 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, 2009, and have issued our report thereon dated December 15, 2009. 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 2008-09*, 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:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable ¹
Regional occupational centers and programs	6	Not Applicable ¹
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	3 ²
Morgan-Hart Class Size Reduction	7	Not Applicable ¹
Instructional Materials:		
General requirements	12	1 ³
K-8 only	1	Not Applicable ¹
9-12 only	1	Not Applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes

	Procedures in Audit Guide	Procedures Performed
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable ¹
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

¹ This program is not required to be audited per flexibility provisions in SBX3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBX3 4. Section 19825 procedures (e) and (g) were not performed.

³ The number of procedures to be performed was reduced per flexibility provisions in SBX3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

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. 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. 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.

Varrinek Time Day + Co. LLP

Palo Alto, California
December 15, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENTS

Type of auditor's 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>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education Cluster</u>
<u>84.366</u>	<u>Title II, Part B, CA Mathematics and Science Partnerships</u>
<u>84.365</u>	<u>Title III, Limited English Proficient (LEP) Student Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 417,614</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>Unqualified</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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

2008-1 Code 50000

Mathematics and Science Partnership

Finding

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

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.

Current Status

Implemented.

State Award Findings

2008-2 Code 60000

After School Education and Safety Program

Finding

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.

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.

Current Status

Implemented.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

2008-3 Code 70000

Instructional Materials

Finding

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

Recommendation

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

Current Status

Implemented.

