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INDEPENDENT AUDITOR’S REPORT

To the Board of Trustees and Independent Citizens’ Bond
Oversight Committee for Measure J
Alum Rock Union Elementary School District

Report on the Financial Statements

We have audited the accompanying financial statements of Alum Rock Union Elementary School District (the "District") Measure J General Obligation Bonds activity included in the Building Fund of the District, as of and for the year ended June 30, 2014, and the related notes to the financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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 basic financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alum Rock Union Elementary School District Measure J General Obligation Bonds as of June 30, 2014, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present the financial activity and balances of the Measure J General Obligation Bonds only, and do not purport to, and do not, present fairly the financial position of Alum Rock Elementary School District, as of June 30, 2014, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2014 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Crowe Horwath LLP
Sacramento, California
December 1, 2014
## BALANCE SHEET
June 30, 2014

### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in County Treasury (Note 2)</td>
<td>$25,527,018</td>
</tr>
<tr>
<td>Receivables</td>
<td>25,540</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$25,552,558</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND FUND BALANCE

- **Accounts Payable**
  - $1,802,306
- **Fund balance – restricted (Note 3)**
  - 23,750,252
- **Total liabilities and fund balance**
  - **$25,552,558**

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See accompanying notes to financial statements.
### Statement of Revenues, Expenditures and Change in Fund Balance

For the Year Ended June 30, 2014

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>$ 113,262</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Books and supplies</td>
<td>3,067,496</td>
</tr>
<tr>
<td>Contract services and operating expenditures</td>
<td>1,543,423</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>4,557,927</td>
</tr>
<tr>
<td>Principal retirement</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>117,592</td>
</tr>
</tbody>
</table>

Total expenditures             12,286,438

<table>
<thead>
<tr>
<th>Other financing sources (uses):</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers out</td>
<td>(1,790,117)</td>
</tr>
<tr>
<td>Proceeds from issuance of debt</td>
<td>32,400,000</td>
</tr>
<tr>
<td>Premium related to issuance of bonds</td>
<td>2,278,257</td>
</tr>
<tr>
<td>Costs of issuance of bonds</td>
<td>(564,712)</td>
</tr>
</tbody>
</table>

Total other financing sources (uses) 35,923,428

Change in fund balance           23,750,252

Fund balance, July 1, 2013        -

Fund balance, June 30, 2014       $ 23,750,252

See accompanying notes to financial statements.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Alum Rock Union Elementary School District (the "District") conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practices within California school districts. The District accounts for its financial transactions in accordance with policies and procedures of the Department of Education’s California School Accounting Manual. The activities of the Measure J General Obligation Bonds are recorded along with other activities in the District's Building Fund. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies:

**Financial Reporting Entity:** The financial statements include the activity and balances of the Measure J General Obligation Bonds, only. The activities of the Measure J General Obligation Bonds are recorded along with other activities in the District's Building Fund. These financial statements are not intended to present the financial position and results of operations of Alum Rock Union Elementary School District as a whole.

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

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

**Budgets and Budgetary Accounting:** Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By State law, the District's Board of Trustees must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Trustees satisfied these requirements.

The District's Board of Trustees and Superintendent revise the budgets during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**Accounting Estimates:** The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Encumbrances:** Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.
NOTE 2 – CASH AND INVESTMENTS

Cash at June 30, 2014 consisted of the following:

| Cash in County Treasury | $ 25,527,018 |

Cash in County Treasury: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the interest bearing Santa Clara County Treasurer's Pooled Investment Fund. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool. Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the Pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. In accordance with applicable state laws, the Santa Clara County Treasury may invest in derivative securities with the State of California. However, at June 30, 2014 the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2014, the District had no significant interest rate risk related to cash and investments held.

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

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2014, the District had no concentration of credit risk.

NOTE 3 – FUND BALANCE CLASSIFICATION

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

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 4 – PURPOSE OF BOND ISSUANCE

Bond Authorization: By approval of the proposition for Measure J by at least 55% of the registered voters voting on the proposition at an election held on November 6, 2012, Alum Rock Union Elementary School District was authorized to issue and sell bonds of up to $125,000,000 in aggregate principal amount.
NOTE 4 – PURPOSE OF BOND ISSUANCE (Continued)

Purpose Of Bonds: The proceeds of the Bonds may be used:

"To improve neighborhood schools by removing mold and asbestos; fix leaky, deteriorated roofs; replacing inefficient/aging heating, ventilation, and electrical systems to save money; improving fire safety/ security; updating computer technology/ science labs for 21st century learning; repairing aging restrooms; and acquiring, constructing, and repairing sites/ facilities, shall Alum Rock Union Elementary School District issue $125 million in bonds at legal rates with required independent financial audits, citizens oversight and no money for administrators’ salaries…"

As required by the California Constitution, the proceeds from the sale of bonds will be used only for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

Bond Project List: The Bond Project List, which is an integral part of the proposition, lists the specific projects the District proposes to finance with proceeds of the bonds. Listed repairs, rehabilitation projects and upgrades will be completed as needed at individual campuses. Each project is assumed to include its share of costs of the election and bond issuance, architectural, engineering and similar planning costs, construction management and customary contingency for unforeseen design and construction costs. The final cost of each project will be determined as plans are finalized, construction bids are awarded and projects are completed. In addition, certain construction funds expected from non-bond sources, including State grant funds for eligible projects, have not yet been secured. Therefore, the Board of Trustees cannot guarantee that the bonds will provide sufficient funds to allow completion of all listed projects.

NOTE 5 – GENERAL OBLIGATION BOND ISSUANCES

The bonds are general obligations of the District, and Santa Clara County is obligated to levy ad valorem taxes for the payment of and interest on, the principal of the bonds. The Bond Interest and Redemption Fund is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the payment of interest and redemption of principal of the bonds issued by the District.

Measure J: On July 18, 2013, the District issued series A 2012 General Obligation Bonds, totaling $32,400,000. On August 29, 2013, the district issued series B 2012 General Obligation Bonds, totaling $3,600,000. Repayment of the Bonds is made from tax collections received from the county which the District is located. The Bonds bear interest at rates ranging from 4.00% to 4.25% and are scheduled to mature through 2043.
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, 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 the financial statements of Alum Rock Union Elementary School District (the "District") Measure J General Obligation Bonds activity included in the Building Fund of the District, as of and for the year ended June 30, 2014, and related notes to the financial statements and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alum Rock Union Elementary School District Measure J General Obligation Bonds activity included in the Building Fund of the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alum Rock Union Elementary School District Measure J General Obligation Bonds activity included in the Building Fund of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Alum Rock Union Elementary School District Measure J General Obligation Bonds activity included in the Building Fund of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over that we consider to be material weaknesses. However, material weakness may exist that have not been identified.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alum Rock Union Elementary School District Measure J General Obligation Bonds activity included in the Building Fund of the District's financial statements are free of material misstatement, we performed tests of the District's 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.

Purpose of this Report

This purpose of this report is intended solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP
Sacramento, California
December 1, 2014
No matters were reported.
No matters were reported.