

**ALUM ROCK UNION ELEMENTARY
SCHOOL DISTRICT**

**MEASURE J GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS**

June 30, 2018

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BONDS
June 30, 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL SECTION:	
BALANCE SHEET	3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE	4
NOTES TO FINANCIAL STATEMENTS	5
OTHER INDEPENDENT AUDITOR'S REPORTS:	
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	8
FINDINGS AND RECOMMENDATIONS:	
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS.....	10
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS	11

INDEPENDENT AUDITOR'S REPORT

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

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 (the "Bonds") activity included in the Building Fund of the District, as of and for the year ended June 30, 2018, 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 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.

(Continued)

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 (the "District") Measure J General Obligation Bonds activity as of June 30, 2018, and the changes in financial position thereof 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 activity only, and do not purport to, and do not, present fairly the financial position of Alum Rock Union Elementary School District, as of June 30, 2018, the changes in its financial position, or where applicable, its cash flows 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 April 9, 2019 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 for Measure J General Obligation Bonds activity. 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 for Measure J General Obligation Bonds activity. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control financial reporting and compliance for the Measure J General Obligation Bonds activity.


Crowe LLP

Sacramento, California
April 9, 2019

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2018

ASSETS

Cash in County Treasury (Note 2)	\$ 15,978,487
Due from the District (Note 4)	<u>10,434,558</u>
Total assets	<u>\$ 26,413,045</u>

LIABILITIES AND FUND BALANCE

Accounts payable	\$ 58,389
Fund balance - restricted (Note 3)	<u>26,354,656</u>
Total liabilities and fund balance	<u>\$ 26,413,045</u>

See accompanying notes to financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE
For the Year Ended June 30, 2018

Revenues:	
Other local revenues	\$ <u>140,659</u>
Expenditures:	
Current:	
Salaries	150,478
Benefits	67,130
Books and supplies	1,089
Contract Services	377,301
Capital outlay	<u>5,689,066</u>
Total expenditures	<u>6,285,064</u>
Deficiency of revenues under expenditures	(6,144,405)
Other financing sources:	
Transfers from the District	<u>12,750,070</u>
Change in fund balance	6,605,665
Fund balance, July 1, 2017	<u>19,748,991</u>
Fund balance, June 30, 2018	<u>\$ 26,354,656</u>

See accompanying notes to financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 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 Trustee 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 Trustee 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.

Interfund Activity: Transactions between funds of the District are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

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.

(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – CASH

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. The District is considered to be an involuntary participant in an external investment pool. The fair value of the District's investment in the pool is reported in the financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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, 2018, 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, 2018, 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 for the purposes as authorized through the approval of Measure J.

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 – INTERFUND TRANSACTIONS

Interfund Activity: Transactions between funds of the District are recorded as interfund transfers. The unpaid balances at year-end, as a result of such transactions, are shown as due to and due from other funds. . There was one interfund receivable at June 30, 2018, which consisted of amounts borrowed by the District to temporarily finance Measure I construction projects, until the issuance of General Obligation Bonds were issued under the Measure I authorization.

Transfers: Transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Transfers for the 2017-2018 fiscal year were as follows:

Transfer from the District's County School Facilities Fund to reimburse for prior year payments of the District's Certificates of Participation.	\$ 2,315,512
Transfer from the District's Building Fund to reimburse for project costs authorized under the District's Measure I bond authorization.	<u>10,434,558</u>
	<u>\$ 12,750,070</u>

(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 5 – PURPOSE OF BOND ISSUANCE

Bond Authorization: By approval of this proposition by at least 55% of the registered voters voting on the proposition, the Alum Rock Union Elementary School District shall be authorized to issue and sell bonds of up to \$125,000,000 in aggregate the principal amount.

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 6 – 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 General Obligation Bonds, 2012 Series A, in the amount of \$32,400,000. The Bonds mature in varying amounts through August 2043 with interest rates from 4.0% to 4.25%.

On August 15, 2013, the district issued General Obligation Bonds, 2012 Series B, in the amount \$3,600,000. The Bonds mature in varying amounts through August 2023 with interest rates from 0.496% to 2.641%.

On January 14, 2016, the District issued General Obligation Bonds, 2012 Series C in the amount of \$17,500,000. The Bonds mature in varying amounts through August 2040 with interest rates from 2.0% to 5.25%.

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 (the "Bonds") activity included in the Building Fund of the District, as of and for the year ended June 30, 2018, and related notes to the financial statements and have issued our report thereon dated April 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alum Rock Union Elementary School District's internal control over Measure J General Obligation Bond activity 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's internal control. Accordingly, we do not express an opinion of the effectiveness of Alum Rock Union Elementary School 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Audit Findings and Recommendations as item 2018-001 that we consider to be a material weakness.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alum Rock Union Elementary School District Measure J General Obligation Bond activity included in the Building Fund of the District's financial statements is 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*.

Alum Rock Union Elementary School District's Response to Finding

Alum Rock Union Elementary School District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Recommendations. Alum Rock Union Elementary School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 LLP

Sacramento, California
April 9, 2019

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2018

2018-001 MATERIAL WEAKNESS – FINANCIAL REPORTING (30000)

Criteria

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting, including the financial statements and the Schedule of Expenditures of Federal Awards. The District is required to have proper internal controls in place, specifically in regards to review and approval of accounts.

Condition

The following are areas were noted as deficiencies in internal control which collectively were determined to be a material weakness.

- The District has outsourced both bond program management and construction management services to a third party vendor. As part of that contract, the vendor is to provide documentation to assist with the District's financial reporting and internal control procedures. We noted a deficiency in internal controls related to a lack of documentation provided by that third party.
- The District's third party vendor for program management and construction management services has incurred time and costs under the terms of the contract which have not paid at the direction of the District's County Office of Education. There are remaining invoiced expenses which have not been accrued as a payable at June 30, 2018.
- The District's evidence in support of internal controls related to pay rate changes and the reconciliation between the Payroll Prelist and the Final Payroll Register identified that these control activities were not consistently completed on a timely basis. Further, evidence supporting approval by a supervisor for employee absences and timecards were not consistently documented with the respective District forms.

Effect

The Unaudited Actual financial report provided to the auditors required significant adjustment to arrive at the audited financial statement balances. Additionally, we were unable to substantiate that appropriate internal controls have been implemented to ensure the accuracy of financial reporting.

Cause

The District did not establish and follow adequate internal control procedures.

Recommendation

The District should implement internal controls to ensure the accuracy of financial reporting.

Views of Responsible Officials and Planned Corrective Action

District management agrees with the recommendations and have already begun making changes, such as assigning and training staff to perform monthly reconciliation of cash, account payables and receivables to ensure their accuracy and completion in a timely manner.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
MEASURE J GENERAL OBLIGATION BONDS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS RECOMMENDATIONS
For the Year Ended June 30, 2018

Finding/Recommendation

Current Status

Condition:

Partially Implemented. Refer to current year finding 2018-001.

While conducting our audit procedures it was determined that several adjustments were required due to accounts not being reconciled as of June 30, 2017. The following are areas where we noted deficiencies in internal control that collectively were determined to be a material weakness. Because of the pervasive nature of the deficiencies and the impact on the control environment we have included this material weakness in relation to the Measure J General Obligation Bond financial statement audit.

- Cash in County Treasury reconciliations were not accurately performed as of June 30, 2017.
- Payables in the Audited Financial Statements are the accumulation of 29 sub accounts (object codes 9500 - 9585). Reconciliations for these accounts were not performed as of June 30, 2017.
- The District does not have any evidence to support that the internal controls related to pay rate changes and the reconciliation between the Payroll Prelist and the Final Payroll Register had taken place. Because of the lack of evidence we were unable to determine that appropriate controls were in place and operating to ensure that only authorized transactions had taken place.
- The District has outsourced bond program management and construction management services to a third party vendor. As part of that contract the vendor is to provide documentation to assist with the District's financial reporting and internal control procedures. We noted a deficiency in internal controls related to a lack of documentation provided by that third party.
- The approval of the business office designee was missing for 4 out of 40 invoices tested as capital asset additions during the year ended June 30, 2017.

Recommendation We recommend that the District implement internal controls to ensure the accuracy of financial reporting.
