

**ALUM ROCK UNION  
ELEMENTARY SCHOOL DISTRICT**  
San Jose, California

**FINANCIAL STATEMENTS**  
June 30, 2013

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2013**

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ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2013

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**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

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 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, 2013, and the related notes to the financial statements, which collectively comprise Alum Rock Union Elementary School District's basic 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks 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 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 policies 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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Alum Rock Union Elementary School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows 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 to the financial statements, in March 2012, the GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." The provisions of this Statement are effective for the District's fiscal year ended June 30, 2014, with earlier application being encouraged. The District has implemented this Statement retroactively for the year ended June 30, 2013 resulting in restated net position at July 1, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 to 11 and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule on page 43 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alum Rock Union Elementary School District's financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards and other supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information, except for the Schedule of Financial Trends and Analysis, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013 on our consideration of Alum Rock Union Elementary School 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* in considering Alum Rock Union Elementary School District's internal control over financial reporting and compliance.

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
November 27, 2013

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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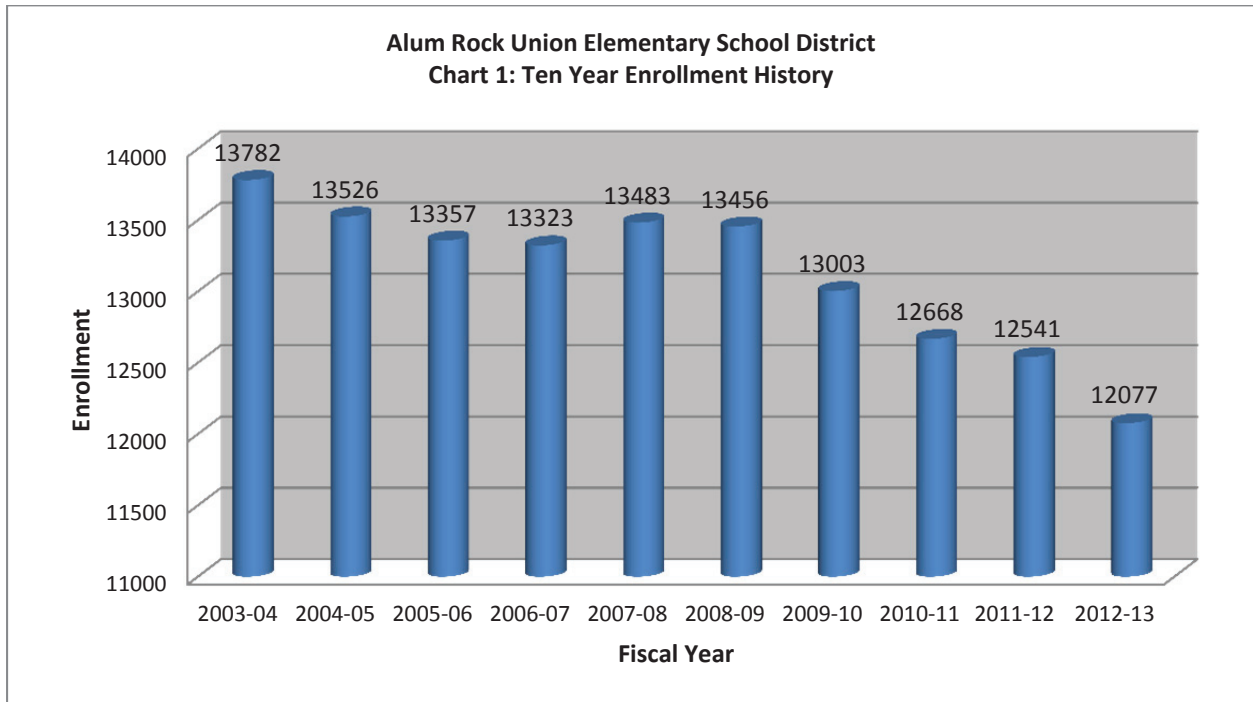
This Management's Discussion and Analysis section of Alum Rock Union Elementary School District's 2012-13 annual financial report presents management's view of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### DISTRICT PROFILE

The District was organized in 1930 under the laws of the State of California. There are twenty elementary schools and seven middle schools (total twenty-seven schools including four Small Schools) serving a student population of under twelve thousand students. The District occupies eleven square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

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

The District has been experiencing declining enrollment since prior to 2000. This decline has resulted in a loss of ADA (average daily attendance), which translates into a loss in revenue. Since approximately 60% of district's revenue is based on ADA and the revenue limit formula, it is important that the District monitor its ADA. Chart 1 below provides the District's ten year ADA comparison.



# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

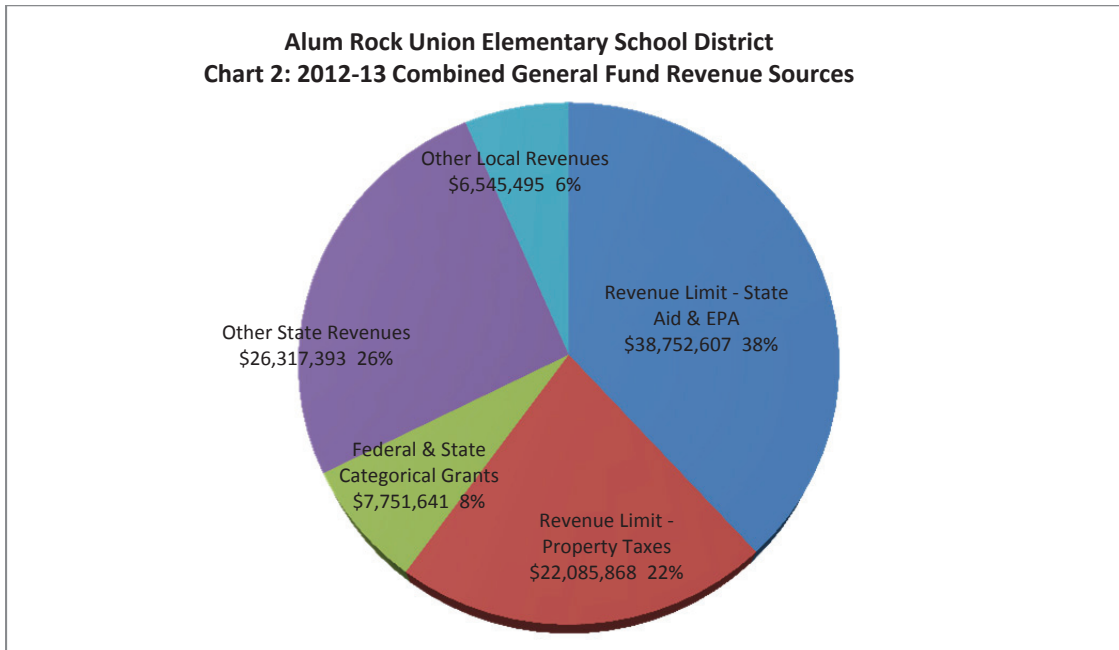
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### FINANCIAL HIGHLIGHTS

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

### School District Revenue Limit Funding

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



**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

Table 1  
General Fund Revenues and Expenditures  
(in thousands of dollars except for Base Revenue Limit and ADA amount)

	June 30,		Increases (Decreases)
	2013	2012	
Beginning Fund Balance	\$ 16,148	\$ 18,453	\$ (2,305)
Total Revenues and Other Sources	101,743	105,086	(3,343)
Total Expenditures and Other Uses	(104,285)	(107,391)	3,106
Ending Fund Balance	<u>\$ 13,606</u>	<u>\$ 16,148</u>	<u>\$ (2,542)</u>
Ending Available Reserves (Unappropriated)	\$ 7,674	\$ 10,611	\$ (2,937)
Base Revenue Limit per ADA	\$ 6,419	\$ 6,217	\$ 202
Funded Revenue Limit per ADA	\$ 5,029	\$ 4,937	\$ 92
Revenue Limit ADA	12,054	12,303	(249)

**Revenues and Expenditures**

Total revenues decreased by approximately \$3.3 million. The majority of this decrease was due to 1) declining enrollment, resulted in loss of ADA, which translated to loss in revenues and 2) loss of one-time ARRA and Ed Jobs Funds, which was exhausted at fiscal year ended June 30, 2012.

Although the base revenue limit per ADA increased by \$202, due to the state imposed 22.272% deficit factor, the revenue limit funded was only \$5,029 per ADA, resulted in an increase of \$92, not \$202, from the 2011-12 funded revenue limit per ADA. In addition, the Revenue Limit ADA declined by 249. As a result, the District experienced a significant decrease in Revenue Limit revenues 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, 2013 was \$13,607,096 which includes the required 3% economic uncertainties reserve of \$3,119,825. 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 \$12,665,718. Our actual ending balance at year-end was \$13,607,096 – a positive variance of \$91,378 from our adopted budget projection. The favorable expenditure variance results primarily from unexpended program funds reflected in the legally restricted ending balance not accounted for in the final budget and from outside contracted services not performed by year end.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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### OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *district-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 district-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.
- *Proprietary funds* statements account for any activity for which services are provided to other funds on a cost-reimbursement basis.
- *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.

#### Government-wide Statements

The Government-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 position 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 district-wide statements report the District's net position and how they have changed. Net position – 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 position 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.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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### 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:

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 three 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 which 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 district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide financial statements that explain the relationships (or differences) between them.

*Proprietary funds.* When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

We use internal service funds to report activities that provide supplies and services for the District's other program and activities, such as the District's Self-Insurance Fund. The internal service fund are reported with government activities in the government-wide financial statements.

*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 position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

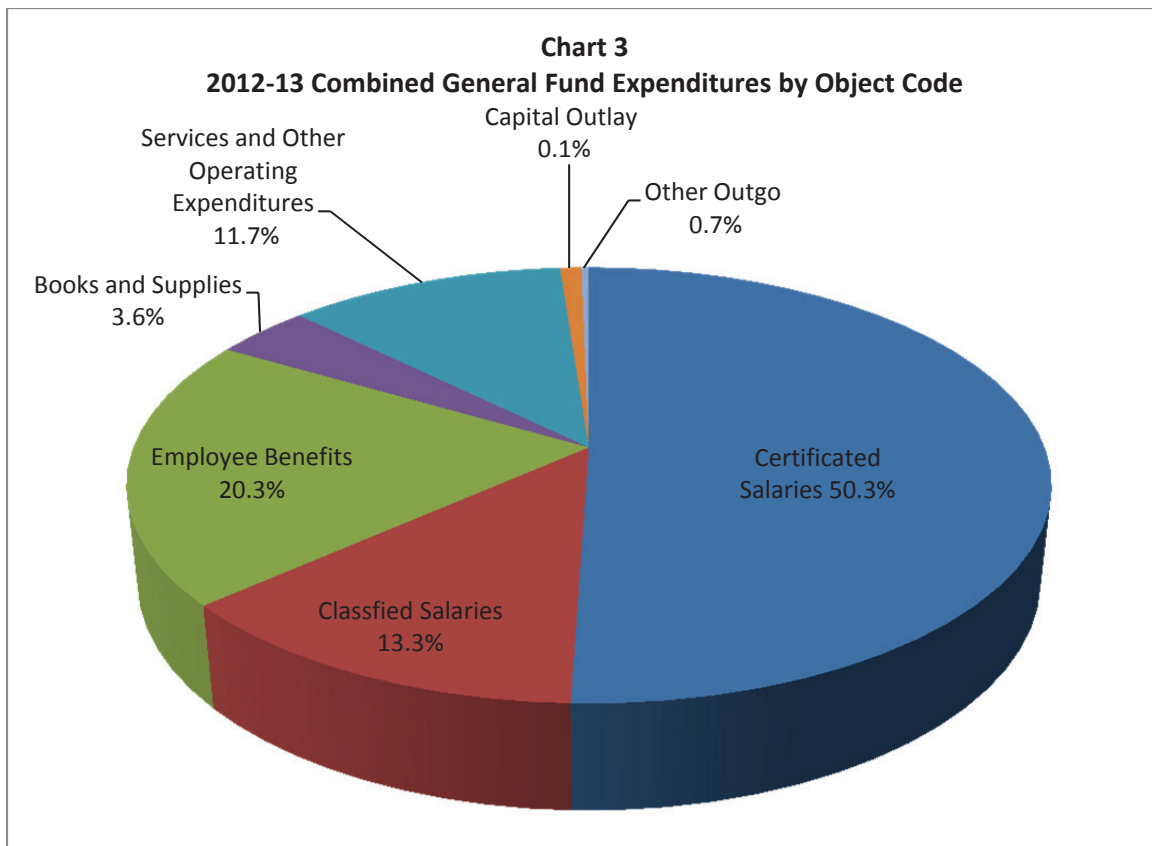
# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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### Governmental Activities

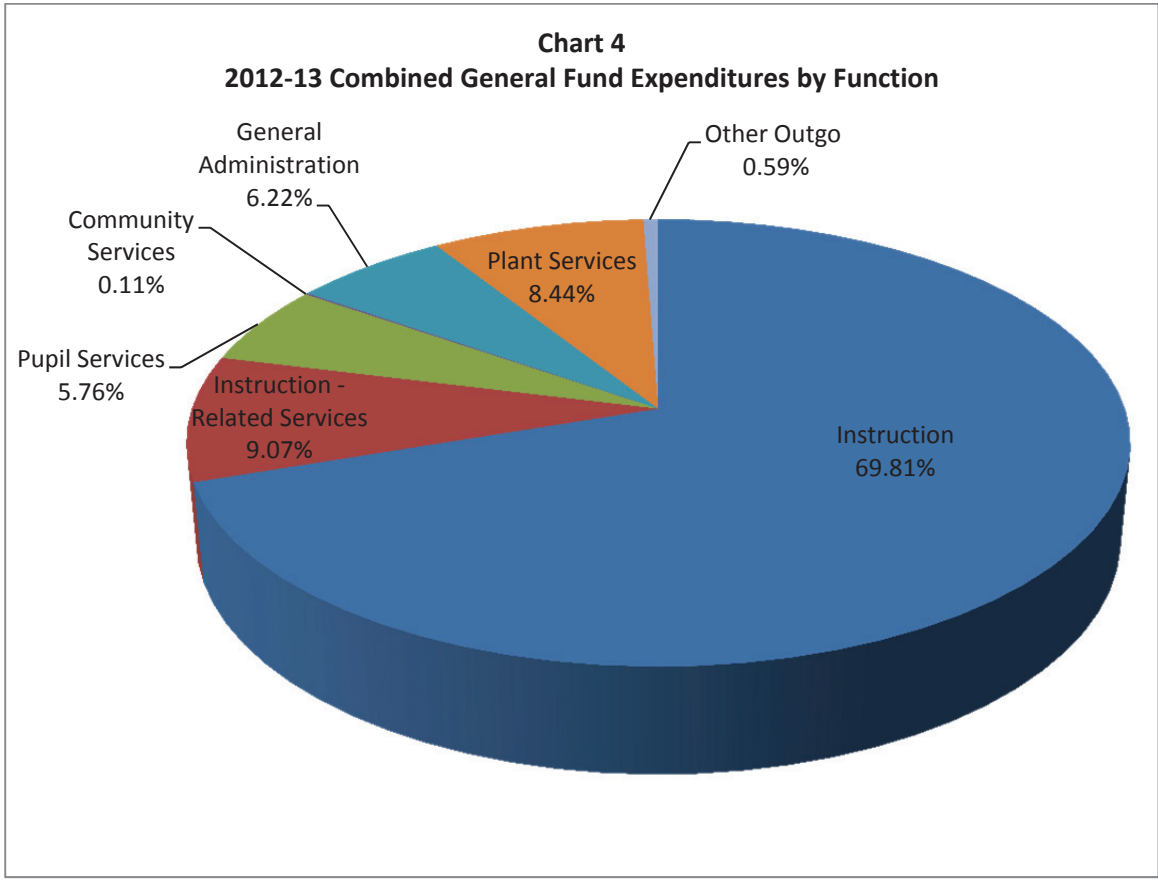
Charts 3 and 4 provide a breakdown of the 2013 General Fund expenditures by Object code and by Function. As is common with virtually all school districts, the majority of expenditures in the General Fund are used for salaries and benefits (approximately 84%). From a functional cost standpoint, Chart 4 shows that approximately 79% of total general fund expenditures go for instruction and instruction-related activities. The District must spend at least 60% of its total certificated salary component on classroom instruction activities. For the current fiscal year, the District spent approximately 65% of certificated salaries on classroom instruction activity.



**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

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# **ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

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

**JUNE 30, 2013**

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

Since approximately 60% of the District's funding is provided by revenue limit sources, the two factors – replacement of revenue limit with Local Control Funding Formula (LCFF) in 2013-14 and ADA (average daily attendance), which are used to calculate LCFF 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:

- Enacted as trailer bill to the 2013-14 Budget Act, Assembly Bill (AB) 97 as Local Control Funding Formula (LCFF), to replace revenue limit funding model. With a phase in period of 8 years, commencing in 2013-14, the District will monitor the projected revenues and status of the State Budget as it will directly affect the District's funded LCFF revenues each year to reach the LCFF entitlement in year 8.
- Enrollment continues to decline due to (1) economic decline causes families to move out of the area, and (2) the growth of charter schools within district boundaries.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

## **BASIC FINANCIAL STATEMENTS**

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**June 30, 2013**

	<u><b>Governmental Activities</b></u>
 <b>ASSETS</b>	
Cash and investments (Note 2)	\$ 24,896,209
Receivables	17,902,668
Prepaid expenditures	843,135
Inventory	373,783
Other current assets	185,852
Non-depreciable capital assets (Note 4)	2,843,520
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>108,427,503</u>
Total assets	<u>155,472,670</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on refunding of debt	<u>524,234</u>
 <b>LIABILITIES</b>	
Accounts payable	10,157,753
Claims Liability (Note 5)	640,868
Unearned revenue	21,150
Long-term liabilities (Note 6):	
Due within one year	3,801,138
Due after one year	<u>99,139,570</u>
Total liabilities	<u>113,760,479</u>
 <b>NET POSITION</b>	
Net invested in capital assets	13,118,688
Restricted (Note 7)	23,801,078
Unrestricted	<u>5,316,659</u>
Total net position	<u>\$ 42,236,425</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, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenues and Changes in Net Position</u>
				<u>Governmental Activities</u>
Governmental activities (Note 4):				
Instruction	\$ 71,396,208	\$ 126,332	\$ 14,423,766	\$ (56,846,110)
Instruction-related services:				
Instructional supervision and administration	2,357,102	-	1,089,947	(1,267,155)
Instructional library, media and technology	468,484	-	447,478	(21,006)
School site administration	6,595,178	-	837,905	(5,757,273)
Pupil services:				
Home-to-school transportation	2,451,282	-	1,390,117	(1,061,165)
Food services	6,503,036	135,204	6,702,815	334,983
All other pupil services	3,534,123	-	1,019,643	(2,514,480)
General administration:				
Data processing	1,441,164	-	-	(1,441,164)
All other general administration	4,823,222	5,998	1,144,358	(3,672,866)
Plant services	8,789,504	282	25,856	(8,763,366)
Ancillary services	-	-	-	-
Community services	110,181	-	105,311	(4,870)
Interest on long-term liabilities	3,171,253	-	-	(3,171,253)
Other outgo	949,431	-	-	(949,431)
	<u>949,431</u>	<u>-</u>	<u>-</u>	<u>(949,431)</u>
Total governmental activities	<u>\$ 112,590,168</u>	<u>\$ 267,816</u>	<u>\$ 27,187,196</u>	<u>(85,135,156)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				25,079,904
Taxes levied for debt service				5,888,036
Taxes levied for other specific purposes				3,503,553
Federal and state aid not restricted to specific purposes				51,406,547
Interest and investment earnings				147,417
Interagency revenues				<u>1,602,512</u>
Total general revenues				<u>87,627,969</u>
Change in net position				<u>2,492,813</u>
Net position, July 1, 2012, as previously reported				46,675,962
Cumulative effect of change in accounting principle				<u>(6,932,350)</u>
Net position, July 1, 2012, as restated				<u>39,743,612</u>
Net position, June 30, 2013				<u>\$ 42,236,425</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**June 30, 2013**

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and investments:						
Cash in County Treasury	\$ 5,022,908	\$ 1,197,845	\$ 7,259,929	\$ 4,508,995	\$ 2,116,710	\$ 20,106,387
Cash on hand and in banks	605	-	-	-	4,820	5,425
Cash in revolving fund	20,000	-	-	-	1,000	21,000
Cash with Fiscal Agent	-	2,800,095	-	-	-	2,800,095
Collections awaiting deposit	2,639	-	-	-	1,144	3,783
Receivables	16,036,666	473	3,346	1,946	1,859,709	17,902,140
Due from other funds	250,000	-	-	-	-	250,000
Inventory	-	-	-	-	373,783	373,783
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 21,332,818</u>	<u>\$ 3,998,413</u>	<u>\$ 7,263,275</u>	<u>\$ 4,510,941</u>	<u>\$ 4,357,166</u>	<u>\$ 41,462,613</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 7,704,572	\$ 1,003,561	\$ -	\$ -	\$ 216,951	\$ 8,925,084
Unearned revenue	21,150	-	-	-	-	21,150
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>7,725,722</u>	<u>1,003,561</u>	<u>-</u>	<u>-</u>	<u>216,951</u>	<u>8,946,234</u>
Fund balances:						
Nonspendable	20,000	-	-	-	374,783	394,783
Restricted	2,793,629	2,994,852	7,263,275	4,510,941	3,765,432	21,328,129
Unassigned	10,793,467	-	-	-	-	10,793,467
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>13,607,096</u>	<u>2,994,852</u>	<u>7,263,275</u>	<u>4,510,941</u>	<u>4,140,215</u>	<u>32,516,379</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 21,332,818</u>	<u>\$ 3,998,413</u>	<u>\$ 7,263,275</u>	<u>\$ 4,510,941</u>	<u>\$ 4,357,166</u>	<u>\$ 41,462,613</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**

**June 30, 2013**

Total fund balances - Governmental Funds		\$ 32,516,379
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$214,699,565 and the accumulated depreciation is \$103,428,542 (Note 4).		111,271,023
Unmatured interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		(1,232,669)
In governmental funds, deferred inflows and deferred outflows of resources resulting from defeasance of debt are not recorded. In governmental activities, for advance refundings resulting in defeasance of debt reported in governmental activities, the difference between reacquisition price and the net carrying amount of the retired debt are reported as a deferred inflows and deferred outflows of resources.		524,234
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Net position for the Self-Insurance Fund Total:		2,098,166
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2013 consisted of (Note 6):		
General Obligation Bonds	\$ (71,800,240)	
Accreted interest	(261,244)	
Unamortized premiums	(826,557)	
Certificates of Participation	(28,000,000)	
Capitalized lease obligations	(64,389)	
SERP	(1,722,451)	
Compensated absences	<u>(265,827)</u>	<u>(102,940,708)</u>
Total net position - governmental activities		<u>\$ 42,236,425</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2013

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Revenue limit sources:						
State apportionment	\$ 38,752,607	\$ -	\$ -	\$ -	\$ -	\$ 38,752,607
Local sources	<u>22,085,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,085,868</u>
Total revenue limit	<u>60,838,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,838,475</u>
Federal sources	7,751,641	-	-	-	6,504,474	14,256,115
Other state sources	26,317,393	-	-	71,332	513,512	26,902,237
Other local sources	<u>6,545,495</u>	<u>3,817</u>	<u>36,858</u>	<u>5,827,304</u>	<u>308,742</u>	<u>12,722,216</u>
Total revenues	<u>101,453,004</u>	<u>3,817</u>	<u>36,858</u>	<u>5,898,636</u>	<u>7,326,728</u>	<u>114,719,043</u>
Expenditures:						
Certificated salaries	52,541,845	-	-	-	-	52,541,845
Classified salaries	13,456,849	-	-	-	2,107,137	15,563,986
Employee benefits	20,724,489	-	-	-	1,079,988	21,804,477
Books and supplies	4,113,852	-	-	-	3,230,110	7,343,962
Contract services and operating expenditures	11,923,656	227,212	-	-	205,510	12,356,378
Capital outlay	909,259	476,437	(500)	-	564,738	1,949,934
Other outgo	37,136	-	-	-	-	37,136
Debt service:						
Principal retirement	274,672	-	-	3,608,425	-	3,883,097
Interest	<u>302,823</u>	<u>-</u>	<u>-</u>	<u>3,045,611</u>	<u>-</u>	<u>3,348,434</u>
Total expenditures	<u>104,284,581</u>	<u>703,649</u>	<u>(500)</u>	<u>6,654,036</u>	<u>7,187,483</u>	<u>118,829,249</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,831,577)</u>	<u>(699,832)</u>	<u>37,358</u>	<u>(755,400)</u>	<u>139,245</u>	<u>(4,110,206)</u>
Other financing sources (uses):						
Operating transfers in	290,396	-	-	-	-	290,396
Operating transfers out	-	-	-	-	(290,396)	(290,396)
Proceeds from issuance of bonds	-	12,035,000	-	-	-	12,035,000
Advance Refunding of General Obligation bonds	-	(12,245,000)	-	-	-	(12,245,000)
Other financing sources	-	918,646	-	-	-	918,646
Other financing uses	<u>-</u>	<u>(524,234)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(524,234)</u>
Total other financing sources (uses)	<u>290,396</u>	<u>184,412</u>	<u>-</u>	<u>-</u>	<u>(290,396)</u>	<u>184,412</u>
Net change in fund balances	(2,541,181)	(515,420)	37,358	(755,400)	(151,151)	(3,925,794)
Fund balances, July 1, 2012	<u>16,148,277</u>	<u>3,510,272</u>	<u>7,225,917</u>	<u>5,266,341</u>	<u>4,291,366</u>	<u>36,442,173</u>
Fund balances, June 30, 2013	<u>\$ 13,607,096</u>	<u>\$ 2,994,852</u>	<u>\$ 7,263,275</u>	<u>\$ 4,510,941</u>	<u>\$ 4,140,215</u>	<u>\$ 32,516,379</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2013**

Net change in fund balances - Total Governmental Funds		\$ (3,925,794)
Amounts reported for governmental activities in the statement of activities are different because:		
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	\$ 5,930,117	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(2,474,722)	
In governmental funds, deferred inflows and deferred outflows of resources are not recognized. In the government-wide statements, deferred inflows and deferred outflows of resources amortized over the life of the debt.	524,234	
In governmental funds, debt issued at a premium is recognized as an other financing source. In government-wide statements, debt issued at a premium is amortized as interest over the life of the debt (Note 6).	(826,557)	
In governmental funds, proceeds from debt are recognized as revenue. In government-wide statements, proceeds from debt are increases to liabilities (Note 6).	(12,035,000)	
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	16,128,097	
Interest on long-term liabilities is recognized in the period it is incurred, in governmental funds it is only recognized when it is due.	142,692	
Accreted interest on capital appreciation bonds is recognized in the period it is incurred. In governmental funds it is only recognized when it is due (Note 6).	(57,600)	
Internal service funds are presumed to benefit governmental activities.	(363,944)	
In the statement of activities, expenses related to the Supplemental Employee Retirement Plan (SERP) are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	(384,392)	
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	<u>(164,318)</u>	<u>6,418,607</u>
Change in net position of governmental activities		<u>\$ 2,492,813</u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATEMENT OF FUND NET POSITION - PROPRIETARY FUND**  
**SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES**

**June 30, 2013**

**ASSETS**

Cash and investments:	
Cash in County Treasury	\$ 1,688,288
Cash with Fiscal Agent	271,231
Receivables	528
Prepaid expenditures	843,135
Other current assets	<u>185,852</u>
 Total assets	 <u>2,989,034</u>

**LIABILITIES**

Due to other funds	250,000
Claims liabilities	<u>640,868</u>
 Total liabilities	 <u>890,868</u>

**NET POSITION**

Restricted	<u><u>\$ 2,098,166</u></u>
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The accompanying notes are an integral  
part of these financial statements.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATEMENT OF CHANGE IN**  
**FUND NET POSITION - PROPRIETARY FUND**  
**SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES**  
**For the Year Ended June 30, 2013**

Operating revenues:	
Self-insurance premiums	<u>\$ 16,065,832</u>
Operating expenses:	
Classified salaries	74,761
Employee benefits	27,118
Books and supplies	4,608
Contract services	<u>16,326,633</u>
Total operating expenses	<u>16,433,120</u>
Operating loss	(367,288)
Non-operating revenue:	
Interest income	<u>3,344</u>
Change in net position	(363,944)
Total net position, July 1, 2012	<u>2,462,110</u>
Total net position, June 30, 2013	<u><u>\$ 2,098,166</u></u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**SELF-INSURANCE FUND - GOVERNMENTAL ACTIVITIES**

**For the Year Ended June 30, 2013**

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 16,279,586
Cash paid for other activities	(4,608)
Cash paid for employee services	(101,879)
Cash paid for claims	<u>(16,341,819)</u>
Net cash used in operating activities	(168,720)
Cash flows provided by investing activities:	
Interest income received	<u>3,344</u>
Decrease in cash and investments	(165,376)
Cash and investments, July 1, 2012	<u>2,124,895</u>
Cash and investments, June 30, 2013	<u><u>\$ 1,959,519</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (367,288)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Decrease (increase) in:	
Receivables	730
Prepaid expenditures	(68,395)
(Decrease) increase in:	
Accounts payable	(36,976)
Claims liabilities	53,209
Amount due to other funds	<u>250,000</u>
Total adjustments	<u>198,568</u>
Net cash used in operating activities	<u><u>\$ (168,720)</u></u>

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**AGENCY FUNDS**

**June 30, 2013**

**ASSETS**

Cash on hand and in banks (Note 2) \$ 321,353

**LIABILITIES**

Due to student groups 321,353

**NET POSITION**

Unrestricted \$ -

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

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alum Rock Union Elementary School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. 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 and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies.

#### Reporting Entity

The Board of Trustees is the level of government which has governance responsibilities over all activities related to public elementary school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District receives funding from local, state and federal governmental sources and must comply with all the requirements of these funding source entities.

#### Basis of Presentation - Financial Statements

The basic financial statements include a Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

#### Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Position at the fund financial statement level.

The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

*Program revenues:* Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation - Government-Wide Financial Statements (Continued)

*Allocation of indirect expenses:* The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

A - Major Funds

1 - General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

2 - Building Fund:

The Building Fund is used to account for resources used for the acquisition of capital facilities by the District.

3 - County School Facilities Fund:

The County School Facilities Fund is used to account for resources used for the acquisition of capital facilities by the District.

4 - Bond Interest and Redemption Fund:

The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation - Fund Accounting (Continued)

**B - Other Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This includes the Cafeteria and Deferred Maintenance Funds.

Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by the District. This includes the Capital Facilities and Special Reserve for Capital Outlay Funds.

The Tax Override Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

The Self-Insurance Fund is an internal service fund which is used to account for the District's employee medical, dental and vision benefits.

The Student Body Fund is a Fiduciary Fund for which the District acts as an agent. All cash activity and assets of the various student bodies of the District are accounted for in the Student Body Fund.

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 the measurement made, regardless of the measurement focus applied.

Accrual

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds 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 in 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.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgets and Budgetary Accounting

By state law, the Board of Trustees must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Trustees complied with these requirements.

Receivables

Receivables are made up principally of amounts due from the State of California for Revenue Limit funding and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2013.

Inventory

Inventory in the Cafeteria Fund consists mainly of consumable supplies held for future use and are valued at actual cost. Inventories are recorded as expenditures at the time individual inventory items are transferred from the warehouse to schools and offices.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

Compensated Absences

Compensated absences benefits in the amount of \$265,827 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and CalPERS employees, when the employee retires.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Unearned Revenue

Revenues from federal, state, and local special projects and programs are recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as unearned revenue until earned.

Restricted Net Position

Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for unspent categorical program revenues represents the portion of net position restricted to specific program expenditures. The restriction for special revenue funds represents the portion of net position restricted for special purposes. The restriction for capital projects represents the portion of net position restricted for capital projects. The restriction for debt service represents the portion of net position available for the retirement of the liabilities. The restriction for self-insurance represents the amount restricted to pay self-insured claims. It is the District's policy to first use restricted net position when allowable expenditures are incurred.

Fund Balance Classifications

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, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash and inventory.

B - Restricted Fund Balance:

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. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Balance Classifications (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. At June 30, 2013 the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Trustees can designate personnel with the authority to assign fund balances, however, as of June 30, 2013, no such designation has occurred.

E - Unassigned Fund Balance:

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy

The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2013, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Santa Clara bills and collects taxes for the District. Tax revenues are recognized by the District when received.

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 at June 30.

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions 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. Accordingly, actual results may differ from those estimates.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, The Financial Reporting Entity: Omnibus. The Statement improves financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues. This statement was adopted for the District's fiscal year ended June 30, 2013 with no material impact on the District.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### New Accounting Pronouncements (Continued)

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement was adopted for the District's fiscal year ended June 30, 2013 with no material impact on the District.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. This statement was adopted for the District's fiscal year ended June 30, 2013 with no material impact on the District.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for the District's fiscal year ended June 30, 2014, with earlier application being encouraged. Based on the implementation of Statement No. 65 the District's 2013 beginning net position was restated by \$6,932,350 because bond issuance costs were no longer capitalized. In addition, the District recorded a deferred loss on refunding of debt of \$524,234.

# ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### New Accounting Pronouncements (Continued)

In March 2012, the GASB issued Statement No. 66, Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 61. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 64, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fundbased reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, Districts should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. The provisions of this Statement are effective for the District's fiscal year ended June 30, 2014, with earlier application encouraged. Management has not determined what impact, if any, this GASB statement will have on the District's financial statements.

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This Statement is effective for the District's financial period beginning June 30, 2014. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

New Accounting Pronouncements (Continued)

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the District's financial period beginning June 30, 2015. Management has not determined what impact, if any, this GASB statement might have on its financial statements.

**2. CASH AND INVESTMENTS**

Cash and investments at June 30, 2013 consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Pooled Funds:		
Cash in County Treasury:		
Cash in County Treasury	\$ 21,794,675	\$ -
Collections awaiting deposit	3,783	-
Deposits:		
Cash on hand and in banks	5,425	321,353
Cash in revolving fund	21,000	-
Cash with Fiscal Agent	<u>3,071,326</u>	<u>-</u>
Total Cash	<u>\$ 24,896,209</u>	<u>\$ 321,353</u>

Pooled Funds

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.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**2. CASH AND INVESTMENTS (Continued)**

Pooled Funds (Continued)

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, 2013 the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2013, the carrying amount of the District's accounts was \$347,778 and the bank balance was \$416,983, which was fully insured.

Cash with Fiscal Agent

Cash with Fiscal Agent represents funds held by third parties on the District's behalf.

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, 2013, 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, 2013, the District had no concentration of credit risk.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**3. INTERFUND TRANSACTIONS**

Interfund Activity

Transactions between funds of the District are recorded as interfund transfers, except for the Self-Insurance Fund activity which is recorded as income and expenditures of the Self-Insurance Fund and the General Fund respectively. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables

Individual fund interfund receivable and payable balances at June 30, 2013 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 250,000	\$ -
Self-Insurance Fund	<u>-</u>	<u>250,000</u>
Totals	<u>\$ 250,000</u>	<u>\$ 250,000</u>

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2012-2013 fiscal year were to transfer \$290,396 from the Cafeteria Fund to the General Fund for indirect costs.

**4. CAPITAL ASSETS**

	<u>Balance July 1, 2012</u>	<u>Transfers and Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2013</u>
Non-depreciable:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Work-in-progress	3,362,033	13,444	(2,940,635)	434,842
Depreciable:				
Buildings	157,743,539	520,606	-	158,264,145
Equipment	7,814,785	5,396,067	-	13,210,852
Improvement of sites	<u>37,440,413</u>	<u>2,940,635</u>	<u>-</u>	<u>40,381,048</u>
Totals, at cost	<u>208,769,448</u>	<u>8,870,752</u>	<u>(2,940,635)</u>	<u>214,699,565</u>
Less accumulated depreciation:				
Buildings	(72,385,725)	(1,134,062)	-	(73,519,787)
Equipment	(5,546,743)	(664,209)	-	(6,210,952)
Improvement of sites	<u>(23,021,352)</u>	<u>(676,451)</u>	<u>-</u>	<u>(23,697,803)</u>
Total accumulated depreciation	<u>(100,953,820)</u>	<u>(2,474,722)</u>	<u>-</u>	<u>(103,428,542)</u>
Capital assets, net	<u>\$ 107,815,628</u>	<u>\$ 6,396,030</u>	<u>\$ (2,940,635)</u>	<u>\$ 111,271,023</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**4. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental activities as follows:

Instruction	<u><u>\$ 2,474,722</u></u>
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**5. SELF-INSURANCE**

The District buys medical coverage (medical, dental, vision) for their employees from insurance carriers. However, for certain medical plans, the District provides a third party administrator of self-insured medical benefits with rates set through an annual calculation process. The employees' and Districts' contribution are put into a common fund from which premiums and payments are made for participants. The District records and estimated liability for its self-insured medical plans.

The Medical claims liability of \$393,694 is based on an actuarial estimate discounted at 5%. Changes in the District's claims liabilities for the year ended June 30, 2013 were as follows:

	<u>Medical</u>	<u>Dental</u>	<u>Vision</u>	<u>Total</u>
Claims liability at July 1, 2011	\$ 358,195	\$ 229,494	\$ 16,124	\$ 603,813
Incurred claims	2,692,232	185,197	(2,822)	2,874,607
Claim payments	<u>(2,692,232)</u>	<u>(185,227)</u>	<u>(13,302)</u>	<u>(2,890,761)</u>
Claims liability at July 1, 2012	358,195	229,464	-	587,659
Incurred claims	2,308,330	109,644	-	2,417,974
Claim payments	<u>(2,272,831)</u>	<u>(91,934)</u>	<u>-</u>	<u>(2,364,765)</u>
Claims liability at June 30, 2013	<u><u>\$ 393,694</u></u>	<u><u>\$ 247,174</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 640,868</u></u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**6. LONG-TERM LIABILITIES**

General Obligation Bonds

On September 6, 2007 the District issued \$9,665,000 of General Obligation Refunding Bonds to fund prior bonds issued including General Obligation Bonds Series of 1997, and 2001 GOBs, Series D. The Bonds mature in varying amounts through September 2026 with interest rates from 4.3% to 5.0%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 429,618	\$ 429,618
2015	-	429,618	429,618
2016	-	429,618	429,618
2017	-	429,618	429,618
2018	2,755,000	353,855	3,108,855
2019-2023	3,980,000	881,257	4,861,257
2024-2027	<u>2,630,000</u>	<u>232,477</u>	<u>2,862,477</u>
	<u>\$ 9,365,000</u>	<u>\$ 3,186,061</u>	<u>\$ 12,551,061</u>

On August 19, 2008 the District issued \$39,000,328 of General Obligation Bonds to finance the renovating and equipping of school facilities. The Bonds mature in varying amounts through August 2033 with interest rates from 3.0% to 5.25%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 122,579	\$ 1,913,535	\$ 2,036,114
2015	193,476	1,941,809	2,135,285
2016	256,030	1,979,304	2,235,334
2017	318,485	1,939,818	2,258,303
2018	540,000	1,990,927	2,530,927
2019-2023	4,659,670	9,032,100	13,691,770
2024-2028	10,130,000	7,091,060	17,221,060
2029-2033	17,855,000	3,624,568	21,479,568
2034	<u>4,780,000</u>	<u>119,500</u>	<u>4,899,500</u>
	<u>\$ 38,855,240</u>	<u>\$ 29,632,621</u>	<u>\$ 68,487,861</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**6. LONG-TERM LIABILITIES (Continued)**

General Obligation Bonds (Continued)

On March 31, 2010 the District issued \$13,600,000 of General Obligation Refunding Bonds to fund prior bonds issued including General Obligation Bonds Series of 1997, and 2001 GOBs, Series D. The Bonds mature in varying amounts through September 2026 with interest rates from 3.0% to 5.0%.

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,185,000	\$ 437,225	\$ 1,622,225
2015	1,315,000	407,399	1,722,399
2016	1,370,000	370,875	1,740,875
2017	3,310,000	273,201	3,583,201
2018	325,000	190,450	515,450
2019-2023	1,790,000	788,889	2,578,889
2024-2027	<u>2,435,000</u>	<u>228,750</u>	<u>2,663,750</u>
	<u>\$ 11,730,000</u>	<u>\$ 2,696,789</u>	<u>\$ 14,426,789</u>

On July 9, 2012 the District issued \$12,035,000 of General Obligation Refunding Bond Series A and B to fund a portion, \$12,245,000, of the District's outstanding 2003 General Obligation Refunding Bonds, a portion of its 2005 General Obligation Refunding Bonds, and to pay costs of issuing the Refunding Bonds. The Bonds mature in varying amounts through 2021 with interest rates from 0.7% to 5.0%.

Series A

Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 303,600	\$ 303,600
2015	-	303,600	303,600
2016	1,000,000	283,600	1,283,600
2017	140,000	261,500	401,500
2018	120,000	258,200	378,200
2019-2022	<u>6,175,000</u>	<u>575,300</u>	<u>6,750,300</u>
	<u>\$ 7,435,000</u>	<u>\$ 1,985,800</u>	<u>\$ 9,420,800</u>

Series B

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,665,000	\$ 35,570	\$ 1,700,570
2015	1,710,000	21,215	1,731,215
2016	<u>1,040,000</u>	<u>6,760</u>	<u>1,046,760</u>
	<u>\$ 4,415,000</u>	<u>\$ 63,545</u>	<u>\$ 4,478,545</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**6. LONG-TERM LIABILITIES (Continued)**

General Obligation Bonds (Continued)

Although the advance refundings resulted in the recognition of an accounting loss of \$524,234 for the year ended June 30, 2013, the District in effect reduced its aggregate debt service payments by \$731,355 over the next 8 years and obtained an economic gain of \$663,948.

Calculation of difference in cash flow requirements and economic gain are as follows:

Old debt service cash flows	\$ 15,037,791
New debt service cash flows	<u>14,306,436</u>
 Cash flow difference	 <u>\$ 731,355</u>
 Present value of old debt service cash flows	 \$ 13,734,545
Present value of new debt service cash flows	<u>13,070,597</u>
 Economic gain	 <u>\$ 663,948</u>

Certificates of Participation

In June 2010, the District issued 2010 Series A COPs totaling \$25,000,000 for the purpose of financing the modernization, equipping, furnishing and/or improving of certain capital facilities of the District. The COPs bear an interest rate of 5.470% and mature through June 2026.

In June 2010, the District issued 2010 Series B COPs totaling \$3,000,000 for the purpose of funding the reserve fund and to pay any other miscellaneous items related to the execution and delivery of the series A COPs. The COPs bear an interest rate of 5.150% and mature through June 2015.

The following is a summary of future payments for Certificates of Participation:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 1,522,000	\$ 1,522,000
2015	3,000,000	1,522,000	4,522,000
2016	-	1,367,500	1,367,500
2017	2,270,000	1,367,500	3,637,500
2018	2,270,000	1,243,332	3,513,332
2019-2023	11,360,000	4,353,846	15,713,846
2024-2026	<u>9,100,000</u>	<u>1,119,983</u>	<u>10,219,983</u>
	<u>\$ 28,000,000</u>	<u>\$ 12,496,161</u>	<u>\$ 40,496,161</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**6. LONG-TERM LIABILITIES (Continued)**

Capitalized Lease Obligations

The District leases equipment with an original cost of \$2,432,321 and accumulated depreciation of \$2,334,642 under long-term lease purchase agreements. A summary of future minimum lease payments is as follows:

<u>Year Ending June 30,</u>	<u>Payments</u>
2014	\$ 65,785
Less interest	<u>(1,396)</u>
Total Principal	<u><u>\$ 64,389</u></u>

Supplemental Employee Retirement Plan

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 below:

<u>Year Ending June 30,</u>	<u>Payments</u>
2014	\$ 669,730
2015	432,035
2016	310,343
2017	<u>310,343</u>
Total	<u><u>\$ 1,722,451</u></u>

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 75,618,665	\$ 12,035,000	\$ 15,853,425	\$ 71,800,240	\$ 2,972,579
Accreted interest	203,644	57,600	-	261,244	-
Unamortized premiums	-	918,646	92,089	826,557	94,440
Certificates of Participation	28,000,000	-	-	28,000,000	-
Capitalized lease obligations	339,061	-	274,672	64,389	64,389
SERP	1,338,059	1,551,715	1,167,323	1,722,451	669,730
Compensated absences	<u>101,509</u>	<u>164,318</u>	<u>-</u>	<u>265,827</u>	<u>-</u>
	<u><u>\$105,600,938</u></u>	<u><u>\$ 14,727,279</u></u>	<u><u>\$ 17,387,509</u></u>	<u><u>\$102,940,708</u></u>	<u><u>\$ 3,801,138</u></u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**6. LONG-TERM LIABILITIES (Continued)**

Changes in Long-Term Liabilities (Continued)

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Payments for capital leases are made by the General Fund. The compensated absences and SERP will be paid by the fund for which the employee worked.

**7. NET POSITION / FUND BALANCES**

Restricted net position as of June 30, 2013 consisted of the following:

	<u>Governmental Activities</u>
Restricted for unspent categorical revenues	\$ 2,793,629
Restricted for self insurance	2,098,166
Restricted for special revenues	3,745,027
Restricted for capital projects	10,611,716
Restricted for debt service	<u>4,552,540</u>
	<u>\$ 23,801,078</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**7. NET POSITION / FUND BALANCES (Continued)**

Fund balances, by category, at June 30, 2013 consisted of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:						
Revolving cash fund	\$ 20,000	\$ -	\$ -	\$ -	\$ 1,000	\$ 21,000
Stores Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,783</u>	<u>373,783</u>
Subtotal nonspendable	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>374,783</u>	<u>394,783</u>
Restricted:						
Unspent categorical revenues	2,793,629	-	-	-	-	2,793,629
Special revenue	-	-	-	-	3,370,244	3,370,244
Capital projects	-	2,994,852	7,263,275	-	353,589	10,611,716
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,510,941</u>	<u>41,599</u>	<u>4,552,540</u>
Subtotal restricted	<u>2,793,629</u>	<u>2,994,852</u>	<u>7,263,275</u>	<u>4,510,941</u>	<u>3,765,432</u>	<u>21,328,129</u>
Unassigned:						
Designated for economic undesignated uncertainty	3,119,825	-	-	-	-	3,119,825
Undesignated	<u>7,673,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,673,642</u>
Subtotal unassigned	<u>10,793,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,793,467</u>
Total fund balances	<u>\$ 13,607,096</u>	<u>\$ 2,994,852</u>	<u>\$ 7,263,275</u>	<u>\$ 4,510,941</u>	<u>\$ 4,140,215</u>	<u>\$ 32,516,379</u>

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

#### 8. EMPLOYEE RETIREMENT SYSTEMS

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

##### Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

##### *Plan Description*

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. 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 Q Street, Sacramento, California 95811.

##### *Funding Policy*

Active plan members are required to contribute 7.0% 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 2012-13 was 11.417% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2012 and 2013 were \$1,694,963, \$1,411,820 and \$1,612,238, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

##### *Plan Description*

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**8. EMPLOYEE RETIREMENT SYSTEMS (Continued)**

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

*Funding Policy*

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2012-13 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2011, 2012 and 2013 were \$4,606,595, \$5,129,799 and \$4,140,417, respectively, and equal 100% of the required contributions for each year.

**9. CONTINGENCIES**

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

Also, the District has received federal and state funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**GENERAL FUND**

**BUDGETARY COMPARISON SCHEDULE**

**For the Year Ended June 30, 2013**

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 35,083,093	\$ 38,751,494	\$ 38,752,607	\$ 1,113
Local sources	<u>20,841,318</u>	<u>22,085,868</u>	<u>22,085,868</u>	<u>-</u>
Total revenue limit	<u>55,924,411</u>	<u>60,837,362</u>	<u>60,838,475</u>	<u>1,113</u>
Federal sources	7,715,938	8,569,863	7,751,641	(818,222)
Other state sources	24,204,425	25,948,638	26,317,393	368,755
Other local sources	<u>5,622,931</u>	<u>6,520,877</u>	<u>6,545,495</u>	<u>24,618</u>
Total revenues	<u>93,467,705</u>	<u>101,876,740</u>	<u>101,453,004</u>	<u>(423,736)</u>
Expenditures:				
Certificated salaries	52,345,340	53,387,693	52,541,845	845,848
Classified salaries	13,786,507	13,376,425	13,456,849	(80,424)
Employee benefits	21,148,216	21,048,426	20,724,489	323,937
Books and supplies	3,726,193	5,725,228	4,113,852	1,611,376
Contract services and operating expenditures	12,128,718	13,312,218	11,923,656	1,388,562
Capital outlay	104,300	1,636,515	909,259	727,256
Other outgo	30,787	30,787	37,136	(6,349)
Debt service:				
Principal retirement	222,597	222,597	274,672	(52,075)
Interest	<u>469,678</u>	<u>293,833</u>	<u>302,823</u>	<u>(8,990)</u>
Total expenditures	<u>103,962,336</u>	<u>109,033,722</u>	<u>104,284,581</u>	<u>4,749,141</u>
Deficiency of revenues under expenditures	(10,494,631)	(7,156,982)	(2,831,577)	4,325,405
Other financing sources (uses):				
Operating transfers in	<u>350,044</u>	<u>335,584</u>	<u>290,396</u>	<u>(45,188)</u>
Net change in fund balance	(10,144,587)	(6,821,398)	(2,541,181)	4,280,217
Fund balance, July 1, 2012	<u>16,148,277</u>	<u>16,148,277</u>	<u>16,148,277</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ 6,003,690</u>	<u>\$ 9,326,879</u>	<u>\$ 13,607,096</u>	<u>\$ 4,280,217</u>

See accompanying note to required supplementary information.

## ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

### NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

#### 1. PURPOSE OF SCHEDULES

##### A Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

## **SUPPLEMENTARY INFORMATION**

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**COMBINING BALANCE SHEET**

**ALL NON-MAJOR FUNDS**

**June 30, 2013**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Special Reserve for Capital Outlay Fund</b>	<b>Tax Override Fund</b>	<b>Total</b>
<b>ASSETS</b>						
Cash in County Treasury	\$ 1,481,922	\$ 238,631	\$ 308,976	\$ 45,582	\$ 41,599	\$ 2,116,710
Cash on hand and in banks	4,820	-	-	-	-	4,820
Cash in revolving fund	1,000	-	-	-	-	1,000
Collections awaiting deposit	-	-	1,144	-	-	1,144
Receivables	1,859,284	188	104	133	-	1,859,709
Inventory	<u>373,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,783</u>
Total assets	<u>\$ 3,720,809</u>	<u>\$ 238,819</u>	<u>\$ 310,224</u>	<u>\$ 45,715</u>	<u>\$ 41,599</u>	<u>\$ 4,357,166</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 193,333	\$ 21,268	\$ -	\$ 2,350	-	\$ 216,951
Fund balances:						
Nonspendable	374,783	-	-	-	-	374,783
Restricted	<u>3,152,693</u>	<u>217,551</u>	<u>310,224</u>	<u>43,365</u>	<u>41,599</u>	<u>3,765,432</u>
Total fund balances	<u>3,527,476</u>	<u>217,551</u>	<u>310,224</u>	<u>43,365</u>	<u>41,599</u>	<u>4,140,215</u>
Total liabilities and fund balances	<u>\$ 3,720,809</u>	<u>\$ 238,819</u>	<u>\$ 310,224</u>	<u>\$ 45,715</u>	<u>\$ 41,599</u>	<u>\$ 4,357,166</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES**

**ALL NON-MAJOR FUNDS**

**For the Year Ended June 30, 2013**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Special Reserve for Capital Outlay Fund</b>	<b>Tax Override Fund</b>	<b>Total</b>
Revenues:						
Federal sources	\$ 6,504,474	\$ -	\$ -	\$ -	\$ -	\$ 6,504,474
Other state sources	513,512	-	-	-	-	513,512
Other local sources	<u>177,443</u>	<u>2,121</u>	<u>127,837</u>	<u>1,341</u>	<u>-</u>	<u>308,742</u>
Total revenues	<u>7,195,429</u>	<u>2,121</u>	<u>127,837</u>	<u>1,341</u>	<u>-</u>	<u>7,326,728</u>
Expenditures:						
Classified salaries	2,107,137	-	-	-	-	2,107,137
Employee benefits	1,079,988	-	-	-	-	1,079,988
Books and supplies	3,230,110	-	-	-	-	3,230,110
Contract services and operating expenditures	94,245	111,265	-	-	-	205,510
Capital outlay	<u>45,663</u>	<u>463,381</u>	<u>42,250</u>	<u>13,444</u>	<u>-</u>	<u>564,738</u>
Total expenditures	<u>6,557,143</u>	<u>574,646</u>	<u>42,250</u>	<u>13,444</u>	<u>-</u>	<u>7,187,483</u>
Excess (deficiency) of revenues over (under) expenditures	638,286	(572,525)	85,587	(12,103)	-	139,245
Other financing uses:						
Operating transfer out	<u>(290,396)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(290,396)</u>
Net change in fund balances	347,890	(572,525)	85,587	(12,103)	-	(151,151)
Fund balances, June 30, 2012	<u>3,179,586</u>	<u>790,076</u>	<u>224,637</u>	<u>55,468</u>	<u>\$ 41,599</u>	<u>4,291,366</u>
Fund balances, June 30, 2013	<u>\$ 3,527,476</u>	<u>\$ 217,551</u>	<u>\$ 310,224</u>	<u>\$ 43,365</u>	<u>\$ 41,599</u>	<u>\$ 4,140,215</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**

**For the Year Ended June 30, 2013**

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2013</u>
<u>Elementary Schools</u>				
Assets:				
Cash on hand and in banks	\$ <u>148,732</u>	\$ <u>473,908</u>	\$ <u>(429,071)</u>	\$ <u>193,569</u>
Liabilities:				
Due to student groups	\$ <u>148,732</u>	\$ <u>473,908</u>	\$ <u>(429,071)</u>	\$ <u>193,569</u>
<u>Middle Schools</u>				
Assets:				
Cash on hand and in banks	\$ <u>77,014</u>	\$ <u>195,914</u>	\$ <u>(145,144)</u>	\$ <u>127,784</u>
Liabilities:				
Due to student groups	\$ <u>77,014</u>	\$ <u>195,914</u>	\$ <u>(145,144)</u>	\$ <u>127,784</u>
<u>Total - All Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ <u>225,746</u>	\$ <u>669,822</u>	\$ <u>(574,215)</u>	\$ <u>321,353</u>
Liabilities:				
Due to student groups	\$ <u>225,746</u>	\$ <u>669,822</u>	\$ <u>(574,215)</u>	\$ <u>321,353</u>

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**ORGANIZATION**

**June 30, 2013**

Alum Rock Union Elementary School District was established in 1930 under the laws of the State of California. There are eighteen elementary schools, five middle schools, and three small schools serving a student population of about 12,668 students. The District occupies 11 square miles in the eastern part of the City of San Jose. It operates under a locally elected five-member board form of government.

**GOVERNING BOARD**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Dolores Marquez	President	2016
Andres Quintero	Vice President	2014
Karen Martinez	Clerk	2016
Frank Chavez	Member	2014
Andrea Flores Shelton	Member	2014

**ADMINISTRATION**

Stephen A. Fiss  
Superintendent

Linda Latasa  
Assistant Superintendent of Business Services

Melina Nguyen  
Director of Fiscal Services

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2013

	<b><u>Original Second Period Report</u></b>	<b><u>Audited Second Period Report</u></b>	<b><u>Annual Report</u></b>
<b><u>District</u></b>			
Kindergarten	1,253	1,253	1,257
First through Third	3,908	3,908	3,899
Fourth through Eighth	6,086	6,086	6,060
Home and Hospital	2	2	3
Special Education	<u>368</u>	<u>370</u>	<u>372</u>
Totals	<u><u>11,617</u></u>	<u><u>11,619</u></u>	<u><u>11,591</u></u>

See accompanying notes to  
supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME**

**For the Year Ended June 30, 2013**

<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>Reduced 1986-87 Minutes Require- ment</u>	<u>Statutory 1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>2012-13 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
<b><u>DISTRICT</u></b>							
Kindergarten	36,000	35,000	32,010	31,121	36,000	180	In Compliance
Grade 1	50,400	49,000	45,380	44,119	51,165	180	In Compliance
Grade 2	50,400	49,000	45,380	44,119	51,165	180	In Compliance
Grade 3	50,400	49,000	45,380	44,119	51,165	180	In Compliance
Grade 4	54,000	52,500	51,600	50,167	54,765	180	In Compliance
Grade 5	54,000	52,500	51,600	50,167	54,765	180	In Compliance
Grade 6	54,000	52,500	51,600	50,167	54,765	180	In Compliance
Grade 7	54,000	52,500	51,600	50,167	54,765	180	In Compliance
Grade 8	54,000	52,500	51,600	50,167	54,765	180	In Compliance

See accompanying notes to  
supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**

**For the Year Ended June 30, 2013**

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B, Section 611	13379	\$ 2,071,570
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	10115	54,654
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	77,878
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Section 611	13682	135,727
84.027	Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	14468	174,711
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Section 619	13431	<u>808</u>
	Subtotal Special Education Cluster		<u>2,515,348</u>
	NCLB: Title I, Part C Program:		
84.011	NCLB: Title I, Part C Migrant Ed/Regular	14328	118,933
84.011	NCLB: Title I, Part C, Even Start Migrant Education (MEES)	14768	<u>29,724</u>
	Subtotal NCLB: Title I Program		<u>148,657</u>
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	884,504
84.010	NCLB: Title I, Part B, Basic Grants Low Income and Neglected	14329	3,224,553
84.365	NCLB (ESEA): Title III, Limited English Proficient (LEP) Student Program	14346	<u>704,863</u>
	Total U.S. Department of Education		<u>7,477,925</u>

(Continued)

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**  
(Continued)  
**For the Year Ended June 30, 2013**

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs (NSL Sec 11)	13396	6,301,705
10.582	Child Nutrition: Fresh Fruit and Vegetable Program	14968	<u>202,769</u>
	Total U.S. Department of Agriculture		<u>6,504,474</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.778	Medi-Cal Billing Option	10013	<u>315,465</u>
	Total Federal Programs		<u>\$ 14,297,864</u>

See accompanying notes to supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT**  
**WITH AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2013**

There were no audit adjustments proposed to any funds of the District.

See accompanying notes to  
supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**

**For the Year Ended June 30, 2013**

**(UNAUDITED)**

	<u>(Budgeted)</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>General Fund</u>				
Revenues and other financing sources	<u>\$100,359,531</u>	<u>\$101,743,400</u>	<u>\$105,402,112</u>	<u>\$108,757,699</u>
Expenditures	<u>102,152,906</u>	<u>104,284,581</u>	<u>107,706,883</u>	<u>111,140,999</u>
Total outgo	<u>102,152,906</u>	<u>104,284,581</u>	<u>107,706,883</u>	<u>111,140,999</u>
Change in fund balance	<u>\$ (1,793,375)</u>	<u>\$ (2,541,181)</u>	<u>\$ (2,304,771)</u>	<u>\$ (2,383,300)</u>
Ending fund balance	<u>\$ 11,813,721</u>	<u>\$ 13,607,096</u>	<u>\$ 16,148,277</u>	<u>\$ 18,453,048</u>
Available reserves	<u>\$ 10,438,372</u>	<u>\$ 10,793,467</u>	<u>\$ 13,833,171</u>	<u>\$ 15,906,226</u>
Designated for economic uncertainties	<u>\$ 3,053,249</u>	<u>\$ 3,119,825</u>	<u>\$ 3,221,735</u>	<u>\$ 3,267,386</u>
Undesignated fund balance	<u>\$ 7,385,123</u>	<u>\$ 7,673,642</u>	<u>\$ 10,611,436</u>	<u>\$ 12,638,840</u>
Available reserves as a percentage of total outgo	<u>10.22%</u>	<u>10.35%</u>	<u>12.84%</u>	<u>14.31%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 99,139,570</u>	<u>\$102,940,708</u>	<u>\$105,600,938</u>	<u>\$103,895,915</u>
Average daily attendance at P-2	<u>11,375</u>	<u>11,619</u>	<u>12,030</u>	<u>12,227</u>

The General Fund fund balance has decreased by \$7,229,252 over the last three years. The fiscal year 2013-14 projects a decrease of \$1,793,375. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses. The District has met compliance with this requirement.

The District incurred operating deficits each of the past three years and anticipates incurring an operating deficit in fiscal year 2014.

Total long-term liabilities have decreased by \$955,207 over the past two years.

Average daily attendance has decreased by 608 over the past two years. A decrease of 244 ADA is projected for the 2013-14 fiscal year.

See accompanying notes to  
supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS**

**For the Year Ended June 30, 2013**

<b>Charter Schools Chartered by District</b>	<b>Included in District Financial Statements, or Separate Report</b>
KIPP Hartwood Academy	Separate Report
Alpha: Blanca Alvarado Middle	Separate Report

See accompanying notes to  
supplementary information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION**

**1. PURPOSE OF SCHEDULES**

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with A-133 requirements, and is presented on the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2013.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 14,256,115
Add: Medi-Cal Billing Option carryover spent		<u>41,749</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 14,297,864</u>

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

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

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION**

(Continued)

**1. PURPOSE OF SCHEDULES (Continued)**

**E - Schedule of Financial Trends and Analysis - Unaudited**

This schedule provides trend information on District's financial condition over the past three years and its anticipated condition for the 2012-2013 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

**F - Schedule of Charter Schools**

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

**2. EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosures in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2013, the District did not adopt this program.

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

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

**Report on Compliance with State Laws and Regulations**

We have audited Alum Rock Union Elementary School District's compliance with the types of compliance requirements described in the State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2013.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	No, see below
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	No, see below
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
After School Education and Safety Program:		
General requirements	4	No, see below
After school	5	No, see below
Before school	6	No, see below
Contemporaneous Records of Attendance, for charter schools	1	No, see below
Mode of Instruction, for charter schools	1	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	4	No, see below

We did not perform procedures related to Independent Study because the District's reported ADA was below the materiality level that requires testing.

We did not perform any procedures related to Continuation Education or After School Education and Safety Program because the District does not offer these programs.

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office.

The District did not offer an Early Retirement Incentive Program; therefore, we did not perform any procedures related to the Early Retirement Incentive Program.

The District does not operate a Juvenile Court Schools Program; therefore, we did not perform any procedures related to the program.

We did not perform any procedures related to Class Size Reduction Program - Option Two classes and Districts with only one school serving K-3 because the District does not offer Option Two, and the District has more than one school serving K-3.

We did not perform any procedures related to After School Education and Safety Program because the District did not offer this program.

The District does not have any Charter Schools; therefore, we did not perform any of the testing required by Article 4 of the Audit Guide.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of state laws and regulations.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance with state laws and regulations of Alum Rock Union Elementary School District. 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 the State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed above 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 on compliance with state laws and regulations. However, our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance.

***Opinion with State Laws and Regulations***

In our opinion, Alum Rock Union Elementary School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2013. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Alum Rock Union Elementary School District had not complied with the state laws and regulations.

**Purpose of this Report**

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Accordingly, this report is not suitable for any other purpose.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Sacramento, California  
November 27, 2013

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 the 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 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, 2013 and the related notes to the financial statements, which collectively comprise Alum Rock Union Elementary School District's basic financial statements, and have issued our report thereon dated November 27, 2013.

#### **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 financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 on 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did identify certain matters in internal control that we communicated to management as described in the accompanying Schedule of Audit Findings and Questioned Costs as finding 2013-01.

## **Alum Rock Union Elementary School District's Response to Findings**

Alum Rock Union Elementary School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

### **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*.

### **Purpose of this Report**

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

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
November 27, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE

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

**Report on Compliance for Each Major Federal Program**

We have audited Alum Rock Union Elementary School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Alum Rock Union Elementary School District's major federal programs for the year ended June 30, 2013. Alum Rock Union Elementary School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Alum Rock Union Elementary School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Alum Rock Union Elementary School District's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, Alum Rock Union Elementary School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## **Report on Internal Control Over Compliance**

Management of Alum Rock Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Alum Rock Union Elementary School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Alum Rock Union Elementary School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Purpose of the Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Crowe Horwath LLP*

Crowe Horwath LLP

Sacramento, California  
November 27, 2013

## **FINDINGS AND RECOMMENDATIONS**

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2013

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**FEDERAL AWARDS**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? \_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555 84.367	Child Nutrition National School Lunch Program Title II, Part A, Improving Teacher Quality

Dollar threshold used to distinguish between Type A and Type B programs: \$ 428,936

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

**STATE AWARDS**

Type of auditor's report issued on compliance for state programs: Unmodified

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2013**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2013-01 DEFICIENCY – INTERNAL CONTROL - ASSOCIATED STUDENT BODY (30000)**

Criteria

Education Code Section 48930 (and California Department of Education’s “Accounting Procedures for Student Organizations Handbook”) requires student body organizations to follow the regulations set by the Governing Board of the school district.

Condition

Adelante Academy

- A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal.

Russo Elementary

- A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal.

McCollam Elementary

- A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal.

Cureton Elementary

- Pre-numbered receipts are not being issued to the teachers when cash is received.
- A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal.

Mathson Middle

- Receipts did not contain a detail of items receipted.
- Deposits are not performed on a timely basis. PE clothes tally sheet was dated 10/3/12; however, the money was not deposited until 12/19/12.
- A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal and students.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2013**

**SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)**

**2013-01 DEFICIENCY – INTERNAL CONTROL - ASSOCIATED STUDENT BODY (30000)**  
(Continued)

Ocala Middle

- Sub receipt books used to record the collection of cash are not tracked. Receipts for dance on 10/26 were issued however there was no tracking of sub receipt book.
- Cash turned in, by individuals and activities, is not done promptly. The cash tally sheet was dated 4/12/13; however the dance took place on 10/26/12. As a result, the deposit of the money was not done timely.
- Cash turned in by individuals and activities is not turned in with numbered receipts acknowledging initial receipt of the moneys. There were no supporting schedules or record of receipts with the tally sheet.
- A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal and students.

Effect

There exists the risk that ASB funds could potentially be misappropriated.

Cause

Established internal controls have not been followed.

Fiscal Impact

Not determinable.

Recommendation

School sites should implement the proper control procedures in order to protect ASB funds from misappropriation. We recommend the following:

- Pre-numbered receipts should be issued to the teachers.
- Sub receipt books issued, to record the collection of cash, should be tracked.
- Receipts should contain a detail of items receipted.
- Cash should be turned in promptly.
- Deposits should be supported by detailed schedules defining the number of items receipted and the price per item.
- A monthly report of financial transactions of the various club accounts should be prepared and then reviewed by school principal and students

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2013**

**2013-01 DEFICIENCY – INTERNAL CONTROL - ASSOCIATED STUDENT BODY (30000)**  
(Continued)

Corrective Action Plan

The District will provide training to all schools sites in January 2014 to review the internal controls over ASB funds. The District will also provide one-on-one trainings as needed, and when requested by school sites. In addition, The District office will continue to make site visits to selected schools twice a year to ensure internal controls and procedures are being followed. The District requires the use receipts, order forms, logs, or pre-numbered tickets to account for all cash received from ASB activities. School sites were given receipt books and the District has reemphasized the requirement of providing a receipt every time money is exchanged. Schools were also reminded all cash should be deposited in a timely manner. Schools are also required to maintain detailed financial records by club-specific and reports should be reviewed monthly by Principal.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2013**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2013**

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**Year Ended June 30, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2012-01	Partially implemented.	See current year finding at 2013-01.
Linda Vista Elementary School:		
<ul style="list-style-type: none"> <li>• The expenditure selected for testing was not supported by the required expenditure approval form showing that the expenditure had been properly approved prior to payment.</li> <li>• Fundraising event was reviewed and approved by the site principal after the event had already taken place.</li> </ul>		
Rodgers Elementary School:		
<ul style="list-style-type: none"> <li>• Deposits submitted to the office by teachers are not supported by detailed schedules, tally sheets, receipts or any other supporting documentation to vouch the initial receipt of cash received by the teachers.</li> </ul>		
McEntee Elementary School:		
<ul style="list-style-type: none"> <li>• Receipts are not issued when funds are turned into the ASB secretary.</li> </ul>		
Cassell Elementary School:		
<ul style="list-style-type: none"> <li>• Receipts are not issued when funds are turned into the ASB secretary.</li> </ul>		
George Middle School:		
<ul style="list-style-type: none"> <li>• Student clubs and student council do not use a receipt book or tally sheets to record cash collections.</li> <li>• Cash turned in by individuals and activities is not supported by numbered receipts acknowledging initial receipt of the monies.</li> <li>• Receipts are not issued when funds are turned into the ASB secretary. Deposits are not performed on a timely basis.</li> <li>• A monthly report of financial transactions of various trust and club accounts is not prepared and submitted to the school principal and other appropriate officials and students.</li> </ul>		

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**Year Ended June 30, 2013**

<b>Finding/Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
2012-01 (Continued)		
Sheppard Middle School:		
<ul style="list-style-type: none"><li>• The ASB advisor/secretary does not maintain a record of receipt books issued by student clubs for the receipt of funds.</li><li>• Receipts are not issued when funds are turned into the ASB secretary.</li><li>• A monthly report of financial transactions of various trust and club accounts is not prepared and submitted to the school principal and other appropriate officials and students.</li></ul>		
Linda Vista Elementary School:		
<ul style="list-style-type: none"><li>• All expenditures should be properly approved prior to disbursement being issued to vendors. All documentation should be maintained in order to support the disbursements.</li><li>• Fund-raising events should be approved prior to the event taking place.</li></ul>		
Rodgers Elementary School:		
<ul style="list-style-type: none"><li>• Teachers should issue receipts to evidence the initial receipt of cash or should record the cash received for each item, by student or parent and by dollar amount in order to support the amount of cash deposited with the office.</li></ul>		
McEntee Elementary School:		
<ul style="list-style-type: none"><li>• Receipts should be issued when funds are turned into the ASB secretary.</li></ul>		
Cassell Elementary School:		
<ul style="list-style-type: none"><li>• Receipts should be issued when funds are turned into the ASB secretary.</li></ul>		

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**Year Ended June 30, 2013**

<b>Finding/Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
2012-01 (Continued)		
George Middle School:		
<ul style="list-style-type: none"> <li>• Student clubs and student council should use a receipt book or tally sheets to record cash collections.</li> <li>• Cash turned in by individuals and activities should be done promptly.</li> <li>• Cash turned in by individuals and activities should be supported by numbered receipts acknowledging initial receipt of the monies.</li> <li>• Receipts should be issued when funds are turned into the ASB secretary.</li> <li>• Deposits should be performed on a timely basis.</li> <li>• Monthly report of financial transactions of various trust and club accounts should be prepared and submitted to the school principal and other appropriate officials and students.</li> </ul>		
Sheppard Middle School:		
<ul style="list-style-type: none"> <li>• The ASB advisor/secretary should maintain a record of receipt books issued by student clubs for the receipt of funds.</li> <li>• Receipts should be issued when funds are turned into the ASB secretary.</li> <li>• Monthly reports of financial transactions of various trust and club accounts should be prepared and submitted to the school principal and other appropriate officials and students.</li> </ul>		

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**Year Ended June 30, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2012-02</p> <p>The J-7-CSR form, submitted to the California Department of Education, was not correctly populated. The District used ending class attendance instead of a calculated average of students attending each class throughout the school year. Further, the District did not take the appropriate penalty for classes above the 20.45 maximum average class size.</p> <p>The person preparing form J-7-CSR should gain an understanding of the reporting requirements for the class sized reduction program by reviewing the instructions or attending training. Management should gain a solid understanding of the reporting requirements in order to perform an effective review of the form before the form is submitted to the State.</p>	<p>Implemented.</p>	
<p>2012-03</p> <p>At Linda Vista Elementary School one student was marked present per teacher's attendance roster and in the attendance summary report for one day of a two day absence. However, the attendance log supported the student's absence for two days.</p> <p>We recommend that the attendance clerk reconciles attendance log with attendance records to ensure attendance is accurately recorded.</p>	<p>Implemented.</p>	