

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

FINANCIAL STATEMENTS
June 30, 2014

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds - to the Statement of Activities	17
Statement of Fund Net Position - Proprietary Fund - Self- Insurance Fund	18
Statement of Change in Fund Net Position - Proprietary Fund - Self-Insurance Fund	19
Statement of Cash flows - Proprietary Fund - Self-Insurance Fund	20
Statement of Fiduciary Net Position - Agency Funds	21
Notes to Financial Statements	22

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Required Supplementary Information:	
General Fund Budgetary Comparison Schedule	44
Note to Required Supplementary Information	45
Supplementary Information:	
Combining Balance Sheet - All Non-Major Funds	46
Combining Statement of Revenues, Expenditures and Change in Fund Balances - All Non-Major Funds	47
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	48
Organization	49
Schedule of Average Daily Attendance	59
Schedule of Instructional Time	51
Schedule of Expenditure of Federal Awards	52
Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements	54
Schedule of Financial Trends and Analysis - Unaudited	55
Schedule of Charter Schools	56
Notes to Supplementary Information	57
Independent Auditor's Report on Compliance with State Laws and Regulations	59
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 <i>Government Auditing Standards</i>	61

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control over Compliance	63
Findings and Recommendations:	
Schedule of Audit Findings and Questioned Costs	65
Status of Prior Year Findings and Recommendations	69

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, 2014, 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, 2014, 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.

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 3 to 11 and the General Fund Budgetary Comparison Schedule on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 basic financial statements. The accompanying schedule of expenditure 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 supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 expenditure 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 basic 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 basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 on our consideration of 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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

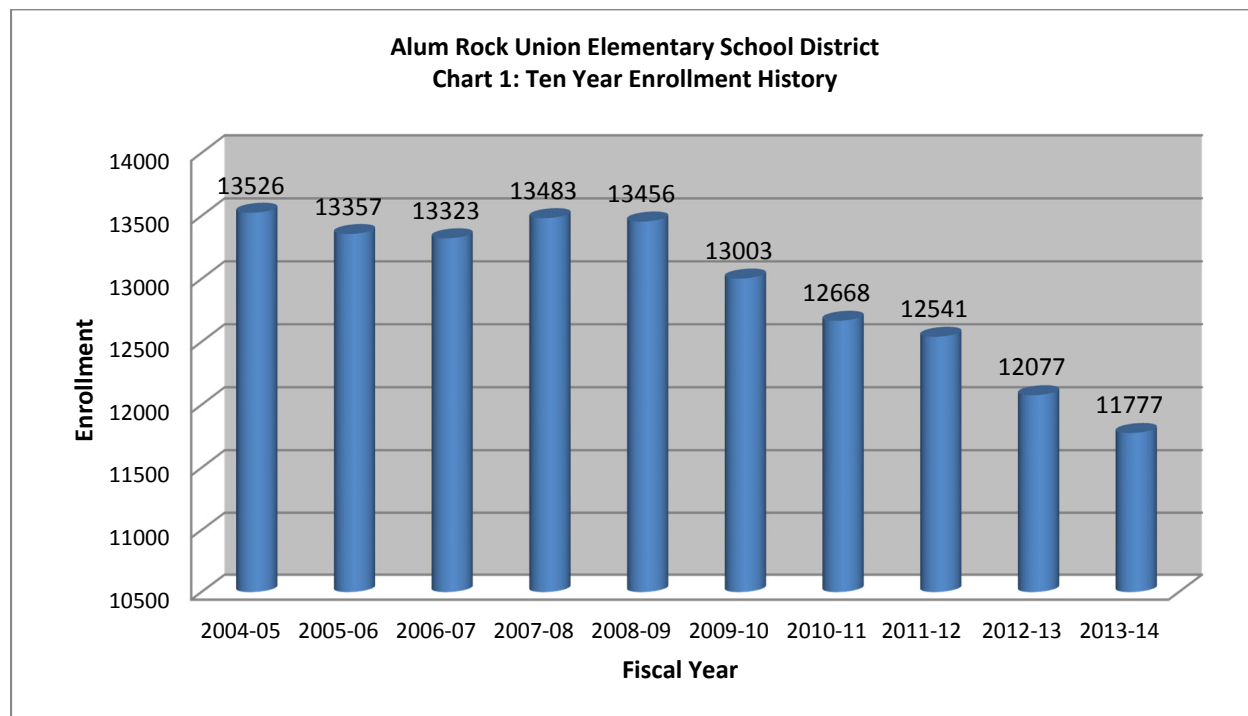
This Management's Discussion and Analysis section of Alum Rock Union Elementary School District's 2013-14 annual financial report presents management's view of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follows this section.

DISTRICT PROFILE

The District was organized in 1930 under the laws of the State of California. There are seventeen elementary schools and eight middle schools (total twenty-five schools including four Small Schools and a dependent Charter School) 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 80% of district's revenue is based on ADA and Local Control Funding Formula (LCFF), 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, 2014

FINANCIAL HIGHLIGHTS

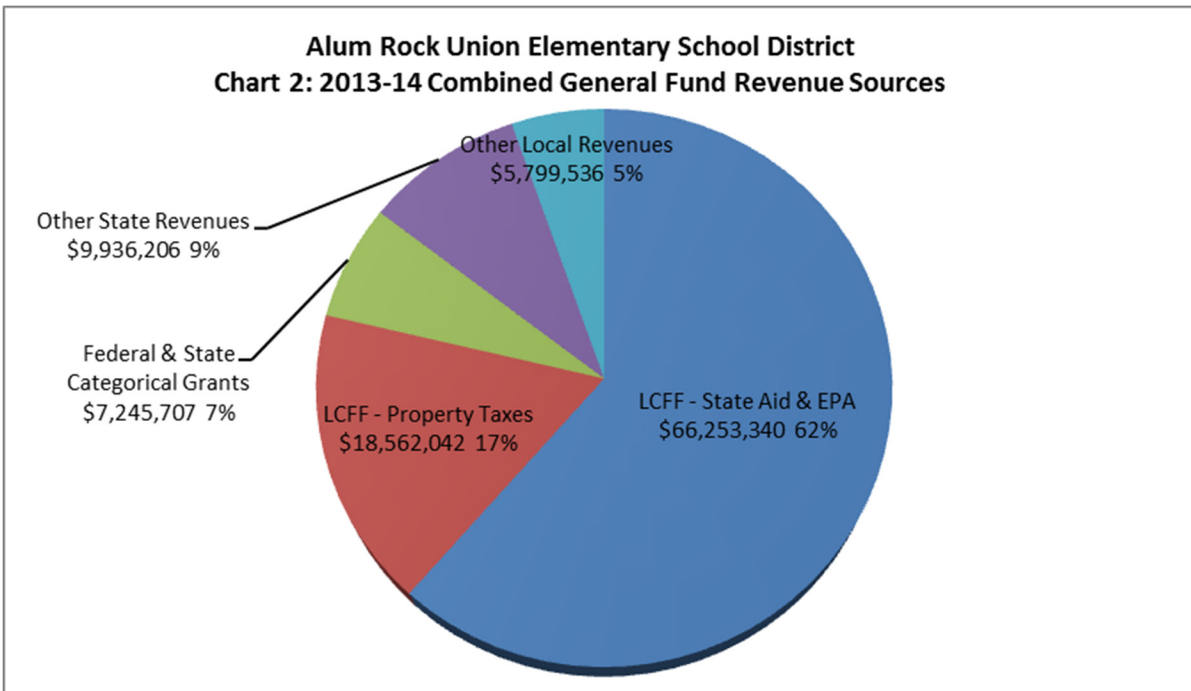
The financial highlights section will focus on the “governmental funds” presentation of the Audited Financial Statements and, more specifically, on the general fund of the District. The District-wide Financial Statements provide financial information on the District as a whole, but we believe the critical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

School District Local Control Funding Formula (LCFF)

The 2013-14 State’s adopted budget entails the most dramatic change in school financing since the implementation of Senate Bill (SB) 90 and the implementation of revenue limits in 1972. After considerable negotiations between the Legislature and Governor Brown, state policy makers enacted the Local Control Funding Formula (LCFF) to replace revenue limits and most categorical programs, commencing 2013-14. The plan for LCFF is complex and many details are still emerging.

LCFF is designed to improve student outcome giving local flexibility to meet student needs, aid in transparency, provide equity through student focus formula, and performance through aligned program and budget plans. LCFF creates the opportunity to implement a performance based budget instead of a compliance based budget. It is estimated that it will take 8 years to fully implement starting with this fiscal year 2013-14. The plan is to reach our *Targeted Entitlement* at the end of 8 years.

The District receives the majority of its funding from LCFF. The District’s LCFF is a direct function of the District’s ADA. The actual funding of the LCFF comes from a combination of local property taxes, Education Protection Account (EPA) 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, 2014

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

	June 30, 2014	2013	Increases (Decreases)
Beginning Fund Balance	\$ 13,606	\$ 16,148	\$ (2,542)
Total Revenues and Other Sources	107,797	101,743	6,054
Total Expenditures and Other Uses	(105,459)	(104,285)	(1,174)
Ending Fund Balance	\$ 15,944	\$ 13,606	\$ 2,338
Ending Available Reserves (Unappropriated)	\$ 8,318	\$ 7,674	\$ 644
Fund LCFF ADA - ARUESD	11,403	12,054	(651)
Fund LCFF ADA - Aptitud	368	-	368

Revenues and Expenditures

Total revenues increased by approximately \$6 million. This increase was attributable to changes in funding formula (LCFF), one time restricted monies such as Common Core and Prop 39.

Although funded ADA decreased by net 283 ADA, changes under the new funding formula, LCFF resulted in a favorable \$2.5 million in revenues.

During fiscal year 2013-14, the District settled with all bargaining units for fiscal 2012-13 for a 1.5% salary increase retro to 7/1/2012. This resulted in an increase in expenditures along with standard operational changes.

Available Reserves

It is important to note that the Unrestricted General Fund accounts for all of the District's instructional and operational activities, plus contribute to the restricted programs when costs of the mandated activities exceed resources. In addition, the required 3% reserve for economic uncertainties comes from unrestricted fund balance.

The unrestricted portion of our general fund balance is referred to as our available reserves. The unrestricted balance on June 30, 2014 was \$11,463,055 which includes the required 3% economic uncertainties reserve of \$3,175,485.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

General Fund Budgetary Highlights

Our adopted budget projected an ending balance, restricted and unrestricted of \$11,428,456 and \$1,047,149, respectively. Our actual ending balance at year-end was in total \$15,944,921, of which \$11,463,055 unrestricted and \$4,481,866 restricted— a positive variance overall from our adopted budget projection. The favorable expenditure variance results primarily from unexpended restricted program funds reflected in the legally restricted ending balance not accounted for in the final budget and from outside services not performed by year end.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had \$109,329,911 in a broad range of capital assets, including land, buildings, and furniture and equipment, net of accumulated depreciation. See Table 2 below. This amount represents a net decrease (including additions, deductions and depreciation) of \$1,941,112 from 2012-13. Our school sites have low values for today's market because the District acquired the land many decades ago. School buildings and site improvements are valued at their historical construction cost less accumulated depreciation.

Table 2

	2014	2013
Land	2,408,678	2,408,678
Construction in progress	3,682,264	434,842
Building and improvements	80,812,429	84,744,358
Equipment	6,711,046	6,999,900
Improvement of sites	15,715,494	16,683,245
Total Capital Assets, net of depreciation	109,329,911	111,271,023

Long Term Liabilities

At year-end, the District had \$134,236,408 of long-term debt outstanding. The long-term obligations of the District include the following:

The District's general obligation bond received a rating of "AA-". State limits the amount of general obligation debt (bonding capacity) that districts can issue to 1.25% of the assessed value of all taxable property within the District's boundaries for a union school district, and 2.50% for a unified school district. The District's outstanding general obligation debt service exceeds the statutorily imposed limit, and the District, without a waiver, will not be able to issue more bonds until the debt ratio decrease.

Other obligations include compensated absences payable, retiree incentive liabilities, and other long-term liabilities. The District has no OPEB obligations. We present more detailed information regarding our long-term liabilities in Note 6 of the financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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, 2014

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 Change 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 is reported with government activities in the government-wide financial statements.

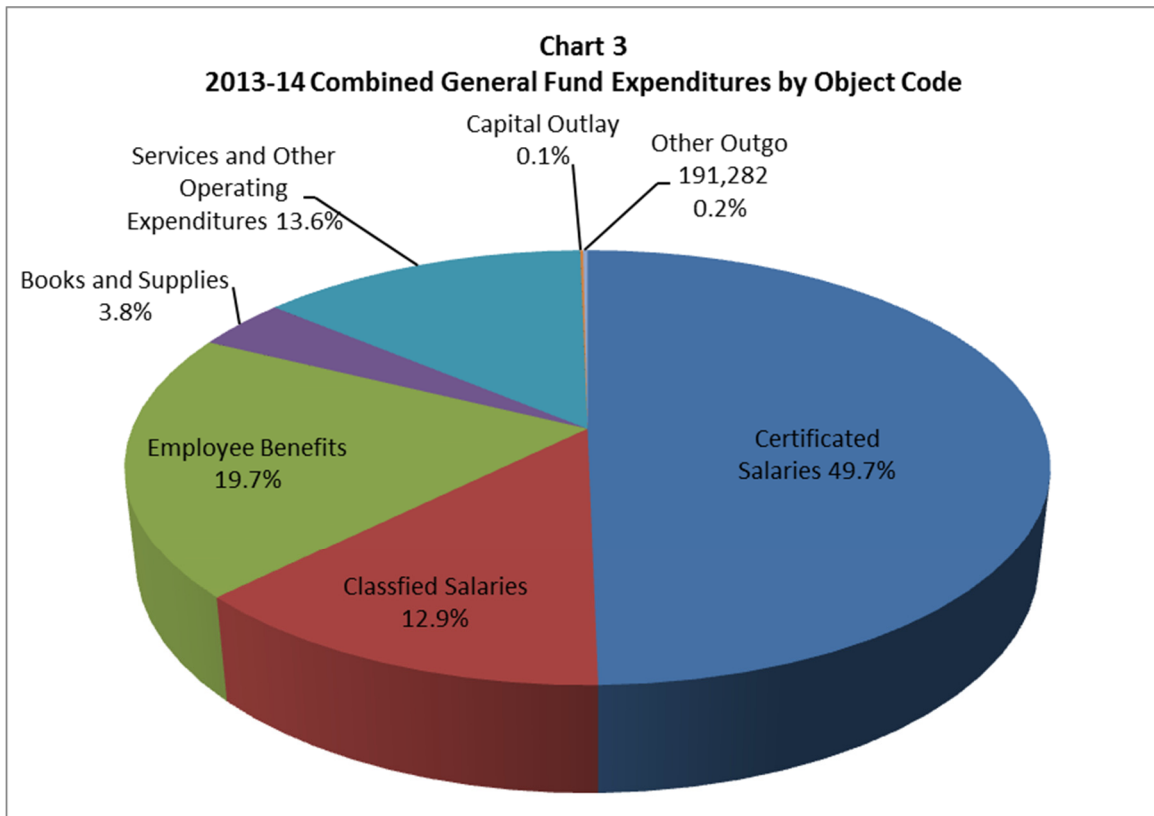
Fiduciary funds. The District is the trustee, or fiduciary, for assets that belong to others, such as the student body funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Change 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.

Governmental Activities

Charts 3 and 4 provide a breakdown of the 2013-14 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 82.3%). From a functional cost standpoint, Chart 4 shows that approximately 77.6% 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 63.72% of certificated salaries on classroom instruction activity.

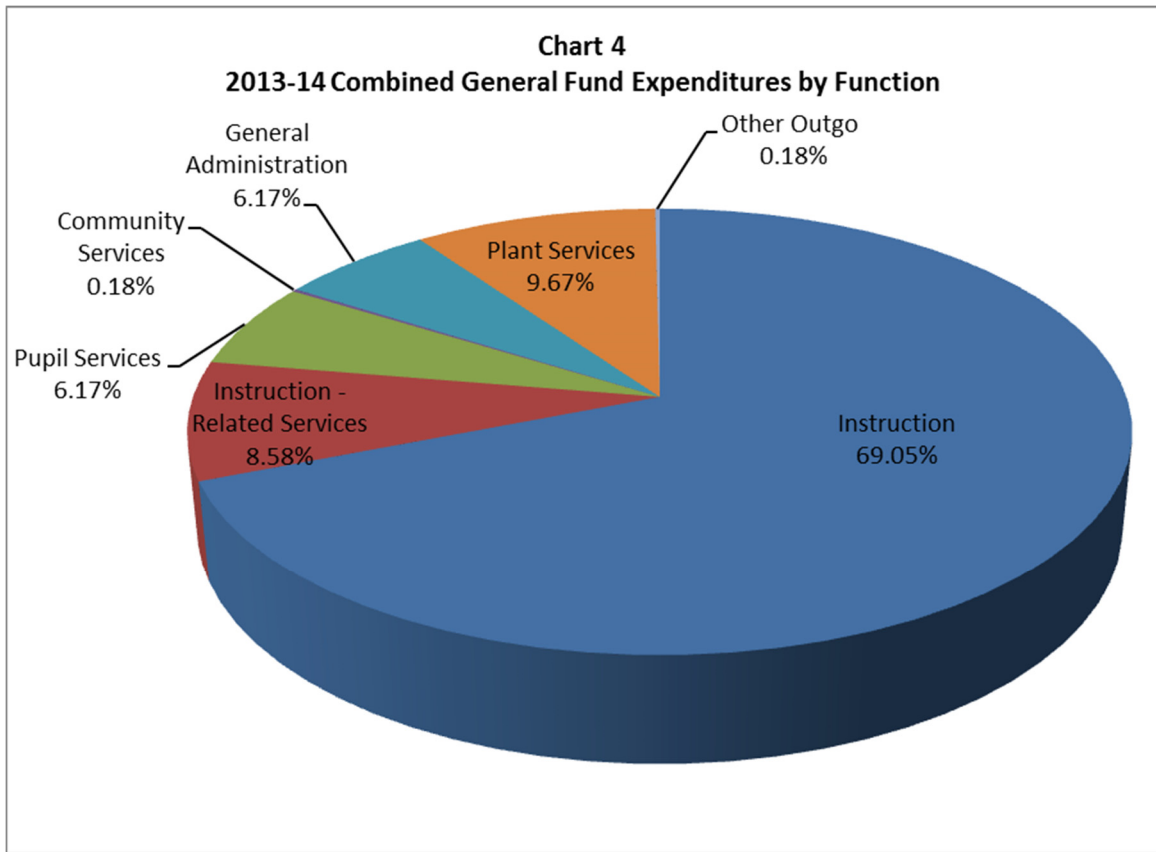
ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014



ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE

Since approximately 80% of the District's funding is provided by LCFF, the two factors – funded percentage of LCFF in future years 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:

- The LCFF plan is accompanied by an optimistic estimate of the resources that will be devoted to public education for the next 8 eight years. This plan will be fully implemented in eight years if and only if, those resources materialize. Each year, District's LCFF entitlement will be determined by "any available appropriations" within the State's Budget. 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, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 52,379,058
Receivables	19,821,675
Prepaid expenses	902,801
Inventory	285,482
Other current assets	341,521
Non-depreciable capital assets (Note 4)	6,090,942
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>103,238,969</u>
Total assets	<u>183,060,448</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding of debt	<u>465,986</u>
LIABILITIES	
Accounts payable	11,378,455
Claims liability (Note 5)	600,118
Unearned revenue	27,001
Long-term liabilities (Note 6):	
Due within one year	5,961,436
Due after one year	<u>128,274,972</u>
Total liabilities	<u>146,241,982</u>
NET POSITION	
Net investment in capital assets	3,672,580
Restricted (Note 7)	30,283,434
Unrestricted	<u>3,328,438</u>
Total net position	<u>\$ 37,284,452</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, 2014

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 79,131,813	\$ 57,983	\$ 15,364,674	\$ (63,709,156)
Instruction-related services:				
Instructional supervision and administration	2,492,189	-	1,095,303	(1,396,886)
Instructional library, media and technology	460,569	-	5,384	(455,185)
School site administration	6,133,052	-	4,736	(6,128,316)
Pupil services:				
Home-to-school transportation	2,911,515	-	(3,653)	(2,915,168)
Food services	7,343,195	120,873	6,159,082	(1,063,240)
All other pupil services	3,618,523	-	647,314	(2,971,209)
General administration:				
Data processing	1,615,262	-	-	(1,615,262)
All other general administration	4,489,328	6,383	1,094,634	(3,388,311)
Plant services	15,104,691	240	3,362,006	(11,742,445)
Ancillary services	-	-	-	-
Community services	191,522	-	1,530	(189,992)
Interest on long-term liabilities	6,156,347	-	-	(6,156,347)
Other outgo	<u>34,380</u>	<u>-</u>	<u>-</u>	<u>(34,380)</u>
Total governmental activities	<u>\$ 129,682,386</u>	<u>\$ 185,479</u>	<u>\$ 27,731,010</u>	<u>(101,765,897)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				21,290,966
Taxes levied for debt service				6,336,437
Taxes levied for other specific purposes				3,579,919
Federal and state aid not restricted to specific purposes				65,489,088
Interest and investment earnings				<u>117,514</u>
Total general revenues				<u>96,813,924</u>
Change in net position				(4,951,973)
Net position, July 1, 2013				<u>42,236,425</u>
Net position, June 30, 2014				<u>\$ 37,284,452</u>

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	<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>
ASSETS						
Cash and investments:						
Cash in County Treasury	\$ 2,541,956	\$ 25,692,063	\$ 7,286,867	\$ 7,639,889	\$ 1,832,082	\$ 44,992,857
Cash on hand and in banks	604	-	-	-	30,850	31,454
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	17,863,067	25,540	7,061	3,921	1,919,006	19,818,595
Due from other funds	2,750,000	-	-	-	-	2,750,000
Inventory	-	-	-	-	285,482	285,482
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,482</u>	<u>285,482</u>
Total assets	<u>\$ 23,178,266</u>	<u>\$ 28,517,698</u>	<u>\$ 7,293,928</u>	<u>\$ 7,643,810</u>	<u>\$ 4,069,564</u>	<u>\$ 70,703,266</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 7,206,344	\$ 1,802,306	\$ -	\$ -	\$ 106,720	\$ 9,115,370
Unearned revenue	27,001	-	-	-	-	27,001
	<u>7,233,345</u>	<u>1,802,306</u>	<u>-</u>	<u>-</u>	<u>106,720</u>	<u>9,142,371</u>
Total liabilities	<u>7,233,345</u>	<u>1,802,306</u>	<u>-</u>	<u>-</u>	<u>106,720</u>	<u>9,142,371</u>
Fund balances:						
Nonspendable	20,000	-	-	-	286,482	306,482
Restricted	4,461,866	26,715,392	7,293,928	7,643,810	3,676,362	49,791,358
Unassigned	11,463,055	-	-	-	-	11,463,055
	<u>15,944,921</u>	<u>26,715,392</u>	<u>7,293,928</u>	<u>7,643,810</u>	<u>3,962,844</u>	<u>61,560,895</u>
Total fund balances	<u>15,944,921</u>	<u>26,715,392</u>	<u>7,293,928</u>	<u>7,643,810</u>	<u>3,962,844</u>	<u>61,560,895</u>
Total liabilities and fund balances	<u>\$ 23,178,266</u>	<u>\$ 28,517,698</u>	<u>\$ 7,293,928</u>	<u>\$ 7,643,810</u>	<u>\$ 4,069,564</u>	<u>\$ 70,703,266</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, 2014

Total fund balances - Governmental Funds \$ 61,560,895

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 \$219,402,383 and the accumulated depreciation is \$110,072,472 (Note 4). 109,329,911

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. (2,263,085)

In governmental funds, 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 deferred outflows of resources. 465,986

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: 2,427,153

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, 2014 consisted of (Note 6):

General Obligation Bonds	\$ (104,827,661)	
Accreted interest	(302,059)	
Unamortized premiums	(2,708,989)	
Certificates of Participation	(25,000,000)	
Supplemental employee retirement plan (SERP)	(1,052,721)	
Compensated absences	<u>(344,978)</u>	<u>(134,236,408)</u>

Total net position - governmental activities \$ 37,284,452

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, 2014

	<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:						
Local Control Funding Formula:						
State apportionment	\$ 66,253,340	\$ -	\$ -	\$ -	\$ -	\$ 66,253,340
Local sources	<u>18,562,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,562,042</u>
Total local control funding formula	<u>84,815,382</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,815,382</u>
Federal sources	7,245,707	-	-	-	7,127,779	14,373,486
Other state sources	9,936,206	-	-	93,772	488,489	10,518,467
Other local sources	<u>5,799,536</u>	<u>113,769</u>	<u>30,653</u>	<u>8,250,868</u>	<u>209,682</u>	<u>14,404,508</u>
Total revenues	<u>107,796,831</u>	<u>113,769</u>	<u>30,653</u>	<u>8,344,640</u>	<u>7,825,950</u>	<u>124,111,843</u>
Expenditures:						
Certificated salaries	52,598,726	-	-	-	-	52,598,726
Classified salaries	13,646,031	-	-	-	2,189,565	15,835,596
Employee benefits	20,865,507	-	-	-	1,165,042	22,030,549
Books and supplies	4,037,768	3,068,906	-	-	3,876,280	10,982,954
Contract services and operating expenditures	14,382,013	1,569,534	-	-	327,659	16,279,206
Capital outlay	128,162	4,560,625	-	-	54,292	4,743,079
Other outgo	34,380	-	-	-	-	34,380
Debt service:						
Principal retirement	64,389	3,000,000	-	2,972,579	-	6,036,968
Interest	<u>92,513</u>	<u>117,592</u>	<u>-</u>	<u>4,029,309</u>	<u>-</u>	<u>4,239,414</u>
Total expenditures	<u>105,849,489</u>	<u>12,316,657</u>	<u>-</u>	<u>7,001,888</u>	<u>7,612,838</u>	<u>132,780,872</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,947,342</u>	<u>(12,202,888)</u>	<u>30,653</u>	<u>1,342,752</u>	<u>213,112</u>	<u>(8,669,029)</u>
Other financing sources (uses):						
Operating transfers in	390,483	-	-	1,790,117	-	2,180,600
Operating transfers out	-	(1,790,117)	-	-	(390,483)	(2,180,600)
Proceeds from issuance of bonds	-	36,000,000	-	-	-	36,000,000
Premium related to issuance of bonds	-	2,278,257	-	-	-	2,278,257
Costs of issuance of bonds	<u>-</u>	<u>(564,712)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(564,712)</u>
Total other financing sources (uses)	<u>390,483</u>	<u>35,923,428</u>	<u>-</u>	<u>1,790,117</u>	<u>(390,483)</u>	<u>37,713,545</u>
Net change in fund balances	2,337,825	23,720,540	30,653	3,132,869	(177,371)	29,044,516
Fund balances, July 1, 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>
Fund balances, June 30, 2014	<u>\$ 15,944,921</u>	<u>\$ 26,715,392</u>	<u>\$ 7,293,928</u>	<u>\$ 7,643,810</u>	<u>\$ 3,962,844</u>	<u>\$ 61,560,895</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, 2014

Net change in fund balances - Total Governmental Funds		\$ 29,044,516
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).	\$ 4,702,818	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(6,643,930)	
In governmental funds, deferred outflows of resources are not recognized. In the government-wide statements, deferred outflows of resources amortized over the life of the debt.	(58,248)	
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).	(1,882,432)	
In governmental funds, proceeds from debt are recognized as revenue. In government-wide statements, proceeds from debt are increases to liabilities (Note 6).	(36,000,000)	
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).	6,036,968	
Interest on long-term liabilities is recognized in the period it is incurred, in governmental funds it is only recognized when it is due.	(1,030,416)	
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).	(40,815)	
Internal service funds are presumed to benefit governmental activities.	328,987	
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).	669,730	
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>(79,151)</u>	<u>(33,996,489)</u>
Change in net position of governmental activities		\$ <u><u>(4,951,973)</u></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, 2014

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 3,806,937
Cash with Fiscal Agent	722,932
Receivables	3,080
Prepaid expenditures	902,801
Other current assets	<u>341,521</u>
Total current assets	<u>5,777,271</u>

LIABILITIES

Due to other funds	2,750,000
Claims liabilities	<u>600,118</u>
Total current liabilities	<u>3,350,118</u>

NET POSITION

Restricted	<u><u>\$ 2,427,153</u></u>
------------	----------------------------

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, 2014

Operating revenues:	
Self-insurance premiums	<u>\$ 17,087,900</u>
Operating expenses:	
Classified salaries	56,953
Employee benefits	25,475
Books and supplies	891
Contract services	<u>16,681,711</u>
Total operating expenses	<u>16,765,030</u>
Operating income	322,870
Non-operating revenue:	
Interest income	<u>6,117</u>
Change in net position	328,987
Total net position, July 1, 2013	<u>2,098,166</u>
Total net position, June 30, 2014	<u><u>\$ 2,427,153</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, 2014

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 19,585,348
Cash paid for other activities	(156,560)
Cash paid for employee services	(82,428)
Cash paid for claims	<u>(16,782,127)</u>
Net cash provided by operating activities	2,564,233
Cash flows used in investing activities:	
Interest income	<u>6,117</u>
Increase in cash and investments	2,570,350
Cash and investments, July 1, 2013	<u>1,959,519</u>
Cash and investments, June 30, 2014	<u><u>\$ 4,529,869</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 322,870</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in:	
Receivables	(2,552)
Prepaid expenditures	(59,666)
Other current assets	(155,669)
(Decrease) increase in:	
Claims liabilities	(40,750)
Amount due to other funds	<u>2,500,000</u>
Total adjustments	<u>2,241,363</u>
Net cash provided by operating activities	<u><u>\$ 2,564,233</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, 2014

ASSETS

Cash on hand and in banks (Note 2)	<u>\$ 333,199</u>
------------------------------------	-------------------

LIABILITIES

Due to student groups	<u>\$ 333,199</u>
-----------------------	-------------------

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

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO 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 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, 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 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.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. This includes the Tax Override Fund.

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, proprietary fund 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 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 Local Control Funding Formula 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Amortization for the year ended June 30, 2014 totaled \$58,248 .

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District does not have any item of this type.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Compensated absences benefits in the amount of \$344,978 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.

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

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.

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, 2014 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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In March 2012 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 fund based 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. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

In June 2012 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 was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2012 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 fiscal year ending June 30, 2015. Management has not determined what impact this GASB statement will have on its financial statements, however it is expected to be significant.

In November 2013 GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and are effective for the District's fiscal year ending June 30, 2015. Management has not determined what impact this GASB statement will have on its financial statements.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 consisted of the following:

	Governmental <u>Activities</u>	Fiduciary <u>Funds</u>
Pooled Funds:		
Cash in County Treasury:		
Cash in County Treasury	\$ 48,799,794	\$ -
Collections awaiting deposit	3,783	-
Deposits:		
Cash on hand and in banks	31,454	333,199
Cash in revolving fund	21,000	-
Cash with Fiscal Agent	<u>3,523,027</u>	<u>-</u>
Total Cash	<u>\$ 52,379,058</u>	<u>\$ 333,199</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.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the Pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the Santa Clara County Treasury may invest in derivative securities with the State of California. However, at June 30, 2014 the Santa Clara County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS

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, 2014, the carrying amount of the District's accounts was \$385,653 and the bank balance was \$422,878, of which \$120,424 was uninsured.

Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts held by a third party custodian in the District's name.

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

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.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Receivables/Payables

Individual fund interfund receivable and payable balances at June 30, 2014 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund:		
General	\$ 2,750,000	\$ -
Proprietary Fund:		
Self-Insurance Fund	<u>-</u>	<u>2,750,000</u>
Totals	<u>\$ 2,750,000</u>	<u>\$ 2,750,000</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 2013-2014 fiscal year were as follows:

Transfer from the Building Fund to the Bond Interest and Redemption Fund for debt service payments.	\$ 1,790,117
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	<u>390,483</u>
	<u>\$ 2,180,600</u>

4. CAPITAL ASSETS

	<u>Balance July 1, 2013</u>	<u>Transfers and Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2014</u>
Non-depreciable:				
Land	\$ 2,408,678	\$ -	\$ -	\$ 2,408,678
Work-in-progress	434,842	3,247,422	-	3,682,264
Depreciable:				
Buildings	158,264,145	81,143	-	158,345,288
Equipment	13,210,852	1,343,740	-	14,554,592
Improvement of sites	<u>40,381,048</u>	<u>30,513</u>	<u>-</u>	<u>40,411,561</u>
Totals, at cost	<u>214,699,565</u>	<u>4,702,818</u>	<u>-</u>	<u>219,402,383</u>
Less accumulated depreciation:				
Buildings	(73,519,787)	(4,013,072)	-	(77,532,859)
Equipment	(6,210,952)	(1,632,594)	-	(7,843,546)
Improvement of sites	<u>(23,697,803)</u>	<u>(998,264)</u>	<u>-</u>	<u>(24,696,067)</u>
Total accumulated depreciation	<u>(103,428,542)</u>	<u>(6,643,930)</u>	<u>-</u>	<u>(110,072,472)</u>
Capital assets, net	<u>\$ 111,271,023</u>	<u>\$ (1,941,112)</u>	<u>\$ -</u>	<u>\$ 109,329,911</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 6,643,930</u>
-------------	---------------------

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 \$600,118 is based on an actuarial estimate discounted at 5%. Changes in the District's claims liabilities for the year ended June 30, 2014 were as follows:

	<u>Total</u>
Claims liability at July 1, 2012	\$ 587,659
Incurred claims	2,417,974
Claim payments	<u>(2,364,765)</u>
Claims liability at June 30, 2013	640,868
Incurred claims	2,288,532
Claim payments	<u>(2,329,282)</u>
Claims liability at June 30, 2014	<u>\$ 600,118</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO 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>
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	2,480,000	227,252	2,707,252
2020-2024	2,115,000	753,719	2,868,719
2025-2027	<u>2,015,000</u>	<u>132,763</u>	<u>2,147,763</u>
	<u>\$ 9,365,000</u>	<u>\$ 2,756,443</u>	<u>\$ 12,121,443</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 September 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>
2015	\$ 193,476	\$ 1,941,809	\$ 2,135,285
2016	256,030	1,979,304	2,235,334
2017	318,485	1,939,819	2,258,304
2018	540,000	1,990,927	2,530,927
2019	434,670	1,980,127	2,414,797
2020-2024	5,765,000	8,659,685	14,424,685
2025-2029	11,445,000	6,551,685	17,996,685
2030-2034	<u>19,780,000</u>	<u>3,744,068</u>	<u>23,524,068</u>
	<u>\$ 38,732,661</u>	<u>\$ 28,787,424</u>	<u>\$ 67,520,085</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO 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
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	330,000	180,625	510,625
2020-2024	1,955,000	704,689	2,659,689
2025-2027	1,940,000	132,325	2,072,325
	<u>\$ 10,545,000</u>	<u>\$ 2,259,564</u>	<u>\$ 12,804,564</u>

On July 9, 2012 the District issued \$12,035,000 of General Obligation Refunding Bond Series A and B to fund a portion 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
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	1,060,000	235,800	1,295,800
2020-2021	5,115,000	339,500	5,454,500
	<u>\$ 7,435,000</u>	<u>\$ 1,682,200</u>	<u>\$ 9,117,200</u>

Series B

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,710,000	\$ 21,215	\$ 1,731,215
2016	1,040,000	6,760	1,046,760
	<u>\$ 2,750,000</u>	<u>\$ 27,975</u>	<u>\$ 2,777,975</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

On July 18, 2013 the District issued \$32,400,000 of General Obligation Bonds to finance the renovating and equipping of school facilities. The Bonds mature in varying amounts through August 2043 with interest rates from 4.0% to 4.25%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 1,776,070	\$ 1,776,070
2016	-	1,771,150	1,771,150
2017	-	1,771,150	1,771,150
2018	-	1,771,150	1,771,150
2019	-	1,771,150	1,771,150
2020-2024	-	8,855,750	8,855,750
2025-2029	660,000	8,847,150	9,507,150
2030-2034	5,050,000	8,323,875	13,373,875
2035-2039	9,785,000	6,433,925	16,218,925
2040-2044	<u>16,905,000</u>	<u>2,642,888</u>	<u>19,547,888</u>
	<u>\$ 32,400,000</u>	<u>\$ 43,964,258</u>	<u>\$ 76,364,258</u>

On August 15, 2013 the District issued \$3,600,000 of General Obligation Bonds to finance the renovating and equipping of school facilities. Additionally, a portion of the proceeds were used to currently refund the District's 2010 Series B COPs. The Bonds mature in varying amounts through August 2043 with interest rates from 0.496% to 2.641%.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,905,000	\$ 62,639	\$ 1,967,639
2016	110,000	58,473	168,473
2017	165,000	57,542	222,542
2018	175,000	55,039	230,039
2019	185,000	51,292	236,292
2020-2024	200,000	46,406	246,406
2025-2029	220,000	37,651	257,651
2030-2034	240,000	28,019	268,019
2035-2039	260,000	17,512	277,512
2040-2044	<u>140,000</u>	<u>6,129</u>	<u>146,129</u>
	<u>\$ 3,600,000</u>	<u>\$ 420,702</u>	<u>\$ 4,020,702</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

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. On August 15, 2013 the District issued 2012 Series B bonds to refund the 2010 Series B COPs.

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>
2015	\$ -	\$ 1,367,500	\$ 1,367,500
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	2,270,000	1,119,162	3,389,162
2020-2024	11,365,000	3,732,454	15,097,454
2025-2026	<u>6,825,000</u>	<u>622,213</u>	<u>7,447,213</u>
	<u>\$ 25,000,000</u>	<u>\$ 10,819,661</u>	<u>\$ 35,819,661</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO 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 \$2,432,321 under long-term lease purchase agreements. The District paid the remaining lease payment of \$64,389 in 2014.

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>
2015	\$ 432,035
2016	310,343
2017	<u>310,343</u>
Total	<u><u>\$ 1,052,721</u></u>

Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General Obligation Bonds	\$ 71,800,240	\$ 36,000,000	\$ 2,972,579	\$104,827,661	\$ 5,123,476
Accreted interest	261,244	63,236	22,421	302,059	405,925
Unamortized premiums	826,557	2,278,257	395,825	2,708,989	-
Certificates of Participation	28,000,000	-	3,000,000	25,000,000	-
Capitalized lease obligations	64,389	-	64,389	-	-
SERP	1,722,451	-	669,730	1,052,721	432,035
Compensated absences	<u>265,827</u>	<u>79,151</u>	<u>-</u>	<u>344,978</u>	<u>-</u>
	<u><u>\$102,940,708</u></u>	<u><u>\$ 38,420,644</u></u>	<u><u>\$ 7,124,944</u></u>	<u><u>\$134,236,408</u></u>	<u><u>\$ 5,961,436</u></u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO 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, 2014 consisted of the following:

	<u>Governmental Activities</u>
Restricted for:	
Unspent categorical revenues	\$ 4,461,866
Self insurance	2,427,153
Special revenues	3,508,086
Capital projects	12,200,946
Debt service	<u>7,685,383</u>
	<u><u>\$ 30,283,434</u></u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

7. NET POSITION / FUND BALANCES (Continued)

Fund balances, by category, at June 30, 2014 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>285,482</u>	<u>285,482</u>
Subtotal nonspendable	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>286,482</u>	<u>306,482</u>
Restricted:						
Unspent categorical revenues	4,461,866	-	-	-	-	4,461,866
Special revenue	-	-	-	-	3,221,604	3,221,604
Capital projects	-	26,715,392	7,293,928	-	413,185	34,422,505
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,643,810</u>	<u>41,573</u>	<u>7,685,383</u>
Subtotal restricted	<u>4,461,866</u>	<u>26,715,392</u>	<u>7,293,928</u>	<u>7,643,810</u>	<u>3,676,362</u>	<u>49,791,358</u>
Unassigned:						
Designated for economic uncertainty	3,175,485	-	-	-	-	3,175,485
Undesignated	<u>8,287,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,287,570</u>
Subtotal unassigned	<u>11,463,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,463,055</u>
Total fund balances	<u>\$15,944,921</u>	<u>\$26,715,392</u>	<u>\$ 7,293,928</u>	<u>\$ 7,643,810</u>	<u>\$ 3,962,844</u>	<u>\$61,560,895</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO 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% 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 2013-14 was 11.442% 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, 2012, 2013 and 2014 were \$1,411,820, \$1,612,238 and \$1,805,041, 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 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% of their salary. The required employer contribution rate for fiscal year 2013-14 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, 2012, 2013 and 2014 were \$5,129,799, \$4,140,417 and \$4,155,452, respectively, and equal 100% of the required contributions for each year. On June 24, 2014 the Governor signed Assembly Bill 1469 which will increase the member contribution to 19.1% over the next seven years.

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.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not be material.

REQUIRED SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

	<u>Budget</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Local control funding formula:				
State apportionment	\$ 38,476,699	\$ 65,572,146	\$ 66,253,340	\$ 681,194
Local sources	<u>21,580,774</u>	<u>18,105,582</u>	<u>18,562,042</u>	<u>456,460</u>
Total local control funding formula	<u>60,057,473</u>	<u>83,677,728</u>	<u>84,815,382</u>	<u>1,137,654</u>
Federal sources	7,832,561	7,924,023	7,245,707	(678,316)
Other state sources	26,420,043	9,852,205	9,936,206	84,001
Other local sources	<u>5,671,502</u>	<u>5,247,245</u>	<u>5,799,536</u>	<u>552,291</u>
Total revenues	<u>99,981,579</u>	<u>106,701,201</u>	<u>107,796,831</u>	<u>1,095,630</u>
Expenditures:				
Certificated salaries	50,108,076	52,723,556	52,598,726	124,830
Classified salaries	13,189,973	13,638,987	13,646,031	(7,044)
Employee benefits	19,443,751	21,016,103	20,865,507	150,596
Books and supplies	5,771,916	6,187,273	4,037,768	2,149,505
Contract services and operating expenditures	13,264,130	15,244,663	14,382,013	862,650
Capital outlay	160,000	527,614	128,162	399,452
Other outgo	215,060	215,060	34,380	180,680
Debt service:				
Principal retirement	-	-	64,389	(64,389)
Interest	<u>-</u>	<u>-</u>	<u>92,513</u>	<u>(92,513)</u>
Total expenditures	<u>102,152,906</u>	<u>109,553,256</u>	<u>105,849,489</u>	<u>3,703,767</u>
(Deficiency) excess of revenues (under) over expenditures	(2,171,327)	(2,852,055)	1,947,342	4,799,397
Other financing sources:				
Operating transfers in	<u>377,952</u>	<u>411,473</u>	<u>390,483</u>	<u>(20,990)</u>
Net change in fund balance	(1,793,375)	(2,440,582)	2,337,825	4,778,407
Fund balance, July 1, 2013	<u>13,607,096</u>	<u>13,607,096</u>	<u>13,607,096</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ 11,813,721</u>	<u>\$ 11,166,514</u>	<u>\$ 15,944,921</u>	<u>\$ 4,778,407</u>

See 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.

Excess of expenditures over appropriations for the year ended June 30, 2014 were as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Classified salaries	\$ 7,044

SUPPLEMENTARY INFORMATION

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2014

	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Fund	Tax Override Fund	Total
ASSETS						
Cash in County Treasury	\$ 1,363,233	\$ 13,277	\$ 368,136	\$ 45,863	\$ 41,573	\$ 1,832,082
Cash on hand and in banks	30,850	-	-	-	-	30,850
Cash in revolving fund	1,000	-	-	-	-	1,000
Collections awaiting deposit	-	-	1,144	-	-	1,144
Receivables	1,918,600	14	347	45	-	1,919,006
Inventory	<u>285,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>285,482</u>
Total assets	<u>\$ 3,599,165</u>	<u>\$ 13,291</u>	<u>\$ 369,627</u>	<u>\$ 45,908</u>	<u>\$ 41,573</u>	<u>\$ 4,069,564</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	<u>\$ 104,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,350</u>	<u>-</u>	<u>\$ 106,720</u>
Fund balances:						
Nonspendable	286,482	-	-	-	-	286,482
Restricted	<u>3,208,313</u>	<u>13,291</u>	<u>369,627</u>	<u>43,558</u>	<u>41,573</u>	<u>3,676,362</u>
Total fund balances	<u>3,494,795</u>	<u>13,291</u>	<u>369,627</u>	<u>43,558</u>	<u>41,573</u>	<u>3,962,844</u>
Total liabilities and fund balances	<u>\$ 3,599,165</u>	<u>\$ 13,291</u>	<u>\$ 369,627</u>	<u>\$ 45,908</u>	<u>\$ 41,573</u>	<u>\$ 4,069,564</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, 2014

	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve for Capital Outlay Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
Revenues:						
Federal sources	\$ 7,127,779	\$ -	\$ -	\$ -	\$ -	\$ 7,127,779
Other state sources	488,489	-	-	-	-	488,489
Other local sources	<u>149,553</u>	<u>559</u>	<u>59,403</u>	<u>193</u>	<u>(26)</u>	<u>209,682</u>
Total revenues	<u>7,765,821</u>	<u>559</u>	<u>59,403</u>	<u>193</u>	<u>(26)</u>	<u>7,825,950</u>
Expenditures:						
Certificated salaries	-	-	-	-	-	-
Classified salaries	2,189,565	-	-	-	-	2,189,565
Employee benefits	1,165,042	-	-	-	-	1,165,042
Books and supplies	3,876,280	-	-	-	-	3,876,280
Contract services and operating expenditures	122,840	204,819	-	-	-	327,659
Capital outlay	<u>54,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,292</u>
Total expenditures	<u>7,408,019</u>	<u>204,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,612,838</u>
Excess (deficiency) of revenues over (under) expenditures	357,802	(204,260)	59,403	193	(26)	213,112
Other financing uses:						
Operating transfer out	<u>(390,483)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(390,483)</u>
Net change in fund balances	(32,681)	(204,260)	59,403	193	(26)	(177,371)
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>
Fund balances, June 30, 2014	<u>\$ 3,494,795</u>	<u>\$ 13,291</u>	<u>\$ 369,627</u>	<u>\$ 43,558</u>	<u>\$ 41,573</u>	<u>\$ 3,962,844</u>

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

For the Year Ended June 30, 2014

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2014</u>
<u>Elementary Schools</u>				
Assets:				
Cash on hand and in banks	\$ <u>193,569</u>	\$ <u>464,530</u>	\$ <u>(443,650)</u>	\$ <u>214,449</u>
Liabilities:				
Due to student groups	\$ <u>193,569</u>	\$ <u>464,530</u>	\$ <u>(443,650)</u>	\$ <u>214,449</u>
<u>Middle Schools</u>				
Assets:				
Cash on hand and in banks	\$ <u>127,784</u>	\$ <u>175,102</u>	\$ <u>(184,136)</u>	\$ <u>118,750</u>
Liabilities:				
Due to student groups	\$ <u>127,784</u>	\$ <u>175,102</u>	\$ <u>(184,136)</u>	\$ <u>118,750</u>
<u>Total - All Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ <u>321,353</u>	\$ <u>639,632</u>	\$ <u>(627,786)</u>	\$ <u>333,199</u>
Liabilities:				
Due to student groups	\$ <u>321,353</u>	\$ <u>639,632</u>	\$ <u>(627,786)</u>	\$ <u>333,199</u>

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

ORGANIZATION

June 30, 2014

Alum Rock Union Elementary School District was established in 1930 under the laws of the State of California. There are sixteen elementary schools, six middle schools, and three small schools serving a student population of about 12,350 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>
Andres Quintero	President	2014
Andrea Flores Shelton	Vice President	2014
Karen Martinez	Clerk	2016
Frank Chavez	Member	2014
Dolores Marquez	Member	2016

ADMINISTRATION

Hilaria Bauer, Ph.D.
Superintendent

Melina Nguyen
Director of Fiscal Services

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2014

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>District</u>		
Transitional Kindergarten through Third	4,964	4,965
Fourth through Sixth	3,693	3,691
Seventh and Eighth	<u>2,337</u>	<u>2,335</u>
ADA Totals	<u><u>10,994</u></u>	<u><u>10,991</u></u>

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2014

<u>Grade Level</u>	<u>Statutory 1986-87 Minutes Require- ment</u>	<u>Reduced 1986-87 Minutes Require- ment</u>	<u>Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
<u>DISTRICT</u>					
Kindergarten	36,000	35,000	36,000	180	In Compliance
Grade 1	50,400	49,000	51,165	180	In Compliance
Grade 2	50,400	49,000	51,165	180	In Compliance
Grade 3	50,400	49,000	51,165	180	In Compliance
Grade 4	54,000	52,500	54,765	180	In Compliance
Grade 5	54,000	52,500	54,765	180	In Compliance
Grade 6	54,000	52,500	54,765	180	In Compliance
Grade 7	54,000	52,500	54,765	180	In Compliance
Grade 8	54,000	52,500	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, 2014

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<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	\$ 1,753,959
84.027	Special Education: IDEA Local Assistance, Part B, Sec 611, Private School ISPs	10115	3,581
84.173	Special Ed: IDEA Preschool Grants, Part B, Section 619 (Age 3-4-5)	13430	75,174
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Section 611	13682	126,016
84.027	Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	14468	142,423
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Section 619	13431	<u>799</u>
	Subtotal Special Education Cluster		<u>2,101,952</u>
	NCLB: Title I, Part C Program:		
84.011	NCLB: Title I, Part C Migrant Ed/Regular	14328	7,674
84.011	NCLB: Title I, Part C, Even Start Migrant Education (MEES)	14768	<u>68,090</u>
	Subtotal NCLB: Title I, Part C Program		<u>75,764</u>
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	974,075
84.010	NCLB: Title I, Part B, Basic Grants Low Income and Neglected	14329	3,239,022
84.365	NCLB (ESEA): Title III, Limited English Proficient (LEP) Student Program	14346	<u>478,919</u>
	Total U.S. Department of Education		<u>6,869,732</u>

(Continued)

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2014

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs (NSL Sec 11)	13396	7,324,184
10.582	Child Nutrition: Fresh Fruit and Vegetable Program	14968	<u>83,838</u>
	Total U.S. Department of Agriculture		<u>7,408,022</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>347,622</u>
	Total Federal Programs		<u>\$ 14,625,376</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, 2014

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, 2014

(UNAUDITED)

	(Budgeted)			
	2015	2014	2013	2012
<u>General Fund</u>				
Revenues and other financing sources	<u>\$110,257,506</u>	<u>\$108,187,314</u>	<u>\$101,743,400</u>	<u>\$105,402,112</u>
Expenditures	<u>109,030,494</u>	<u>105,849,489</u>	<u>104,284,581</u>	<u>107,706,883</u>
Total outgo	<u>109,030,494</u>	<u>105,849,489</u>	<u>104,284,581</u>	<u>107,706,883</u>
Change in fund balance	<u>\$ 1,227,012</u>	<u>\$ 2,337,825</u>	<u>\$ (2,541,181)</u>	<u>\$ (2,304,771)</u>
Ending fund balance	<u>\$ 17,171,933</u>	<u>\$ 15,944,921</u>	<u>\$ 13,607,096</u>	<u>\$ 16,148,277</u>
Available reserves	<u>\$ 16,690,982</u>	<u>\$ 14,638,540</u>	<u>\$ 10,793,467</u>	<u>\$ 13,833,171</u>
Designated for economic uncertainties	<u>\$ 3,270,915</u>	<u>\$ 3,175,485</u>	<u>\$ 3,119,825</u>	<u>\$ 3,221,735</u>
Undesignated fund balance	<u>\$ 13,420,067</u>	<u>\$ 11,463,055</u>	<u>\$ 7,673,642</u>	<u>\$ 10,611,436</u>
Available reserves as a percentage of total outgo	<u>12.31%</u>	<u>10.83%</u>	<u>10.35%</u>	<u>12.84%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$128,274,972</u>	<u>\$134,236,408</u>	<u>\$102,940,708</u>	<u>\$105,600,938</u>
Average daily attendance at P-2	<u>10,560</u>	<u>10,994</u>	<u>11,619</u>	<u>12,030</u>

The General Fund fund balance has decreased by \$2,508,127 over the last three years. The fiscal year 2014-15 projects an increase of \$1,227,012. 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 in two of the past three years and anticipates incurring an operating surplus in fiscal year 2015.

Total long-term liabilities have increased by \$28,635,470 over the past two years.

Average daily attendance has decreased by 1,036 over the past two years. A decrease of 434 ADA is projected for the 2014-15 fiscal year.

See accompanying notes to
supplementary information.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2014

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
Aptitud Community Academy at Goss	Included in the District financial statements, in the General Fund
KIPP Heartwood Academy	Separate Report
Alpha: Blanco Alvarado Middle	Separate Report
KIPP Prize Preparatory Academy (effective 8/1/2014)	Separate Report
ACE Alum Rock (effective 8/18/2014)	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, 2014.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 14,373,486
Add: National School Lunch carryover		280,243
Less: Medi-Cal Billing Option not spent		<u>(28,353)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 14,625,376</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 2014-2015 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, 2014, 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, 2014.

<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	10	Yes
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
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	No, see below
Education Protection Account Funds	1	No, see below
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance, for charter schools	8	Yes
Mode of Instruction, for charter schools	1	Yes
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	Yes
Charter School Facility Grant Program	1	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, Before School, because the District does not offer these programs.

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 Education Protection Account Funds or Charter School Facility Grant Program as the District did not expend funds in the current year.

We did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study, for charter schools or Determination of Funding for Nonclassroom-Based Instruction, for charter schools because the District's charter school has no Nonclassroom-Based/Independent Study students.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with state laws and regulations as listed above 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 below 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, 2014. 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

Sacramento, California
December 1, 2014

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, 2014 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 December 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alum Rock Union Elementary School District'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.

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
December 1, 2014

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, 2014. 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, 2014.

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

Sacramento, California
December 1, 2014

FINDINGS AND RECOMMENDATIONS

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

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	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported

Noncompliance material to financial statements noted?

	_____ Yes	<u> X </u> No
--	-----------	-----------------

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	<u> X </u> 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	<u> X </u> No
--	-----------	-----------------

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.027A, 84.173A 84.010	Special Education Cluster NCLB: Title I, Part B, Basic Grants Low Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs: \$ 438,773

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, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

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, 2014

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, 2014

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2013-01	Implemented.	
Adelante Academy		
<ul style="list-style-type: none"> A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal. 		
Russo Elementary		
<ul style="list-style-type: none"> A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal. 		
McCollam Elementary		
<ul style="list-style-type: none"> A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal. 		
Cureton Elementary		
<ul style="list-style-type: none"> 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		
<ul style="list-style-type: none"> 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
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
(Continued)
Year Ended June 30, 2014

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2013-01 (Continued)		
Ocala Middle		
<ul style="list-style-type: none"> • 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. 		
<p>School sites should implement the proper control procedures in order to protect ASB funds from misappropriation. We recommend the following:</p>		
<ul style="list-style-type: none"> • 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. 		