

**UNION SCHOOL DISTRICT
COUNTY OF SANTA CLARA
SAN JOSE, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2013



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Union School District
County of Santa Clara

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Union 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 the Union School District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

District 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13 (K-12 Audit Guide)*, prescribed by the California State Controller's Office. 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 District'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 District'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 the District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9, 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the other information listed in the supplementary section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 combining and individual nonmajor fund financial statements and other schedules listed in the supplementary section of the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



The schedule of expenditures of federal awards 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.

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013 on our consideration of The District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The District's internal control over financial reporting and compliance.

C & A LLP

November 14, 2013
San Jose, California

Management's Discussion and Analysis

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

The discussion and analysis of the financial performance of the Union School District provides an overall review of the organization's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the district's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2012-13 are as follows:

- Total net position decreased by \$330,908, or 1.32%, from June 30, 2012 to June 30, 2013.
- General revenues accounted for \$44,061,366, or 90%, of all revenues.
- The District had \$49,436,511 in expenses offset by program specific revenues of \$5,044,237.
- Total fund balance in all District funds increased by \$2,271,784 or 7.59% from June 30, 2012 to June 30, 2013.
- The District met the State required minimum reserve for economic uncertainty of 3% of general fund expenditure, transfers out and other uses (total outgo).
- CBEDs enrollment increased by 5.44% from 5,022 to 5,295.
- The District's P-2 ADA increased from 4,910 ADA in fiscal year 2011-12 to 5,154 ADA in fiscal year 2012-13, an increase of 244 ADA or 4.97%.

Using the Annual Report

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized to assist the reader in understanding the Union School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the district-wide financial statements and provide information about the activities of the whole district, presenting both an aggregate view of the organization's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the district's most significant fund, the General Fund, with all other (non-major) funds presented in total in one column.

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Overview of the Financial Statements

Government-wide Financial Statements - Statement of Net Position and the Statement of Activities

While this document contains the seven funds used by the Union School District to provide programs and activities, it provides a view of the district as a whole, looks at all financial transactions and asks the question, "How did we do financially during 2012-13"? The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts all of the current year's revenues and expenditures regardless of when cash is received or paid.

These two statements report the district's net position and changes in those assets. This change in net position is important because it tells the reader that, for the Union School District as a whole, the financial position of the organization has improved or diminished. The causes of the change may be the result of many factors, some financial, and some not. Non-financial factors include the district's property tax base, current property tax laws in California restricting revenue growth, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the district reports governmental activities. Governmental activities are the activities in which most of the district's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Reporting the Union School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the district's major funds. The district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district's most significant funds and not the organization as a whole.

Governmental Funds

Most of the district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

The Union School District's most significant governmental fund is the General Fund.

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

The Union School District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary that compares the district's net position in 2011-12 and 2012-13:

Table 1 - Summary of Statement of Net Position				
	2013	2012	Change	Percentage Change
Assets				
Current Assets	\$ 34,558,662	\$ 32,006,606	\$ 2,552,056	7.97%
Noncurrent Assets	108,088,936	108,891,514	(802,578)	-0.74%
Total Assets	\$ 142,647,598	\$ 140,898,120	\$ 1,749,478	1.24%
Deferred Outflows of Resources				
	\$ 1,417,138	\$ -	\$ 1,417,138	100.00%
Liabilities				
Current Liabilities	\$ 3,919,115	\$ 3,336,262	\$ 582,853	17.47%
Long-term Liabilities	115,479,232	112,564,561	2,914,671	2.59%
Total Liabilities	\$ 119,398,347	\$ 115,900,823	\$ 3,497,524	3.02%
Net Position				
Net Investment in Capital Assets	\$ (5,571,635)	\$ (2,338,145)	\$ (3,233,490)	138.29%
Restricted	18,281,704	15,772,019	2,509,685	15.91%
Unrestricted	11,956,320	11,563,423	392,897	3.40%
Total Net Position	\$ 24,666,389	\$ 24,997,297	\$ (330,908)	-1.32%

Table 2 shows the changes in net position for fiscal year 2011-12 and 2012-13.

Table 2 - Summary of Changes in Statement of Activities				
	2013	2012	Change	Percentage Change
Revenues				
Program revenues	\$ 5,044,237	\$ 5,578,709	\$ (534,472)	-9.58%
General revenues:				
Property taxes	29,677,475	28,192,626	1,484,849	5.27%
Parcel taxes	1,310,880	1,308,384	2,496	0.19%
Grants and entitlements - unrestricted	7,404,948	6,891,021	513,927	7.46%
Other	5,668,063	5,144,494	523,569	10.18%
Total Revenues	49,105,603	47,115,234	1,990,369	4.22%
Program Expenses				
Instruction	24,489,120	24,583,980	(94,860)	-0.39%
Instruction-related services	4,731,622	4,762,326	(30,704)	-0.64%
Pupil services	2,632,490	2,564,038	68,452	2.67%
General administration	2,714,500	2,176,418	538,082	24.72%
Plant services	6,551,568	6,395,420	156,148	2.44%
Other outgo	1,733,874	1,991,884	(258,010)	-12.95%
Interest on long-term debt	6,583,337	4,972,014	1,611,323	32.41%
Total Expenses	49,436,511	47,446,080	1,990,431	4.20%
Change in Net Position	(330,908)	(330,846)	(62)	0.02%
Beginning Net Position	24,997,297	25,328,143	(330,846)	-1.31%
Ending Net Position	\$ 24,666,389	\$ 24,997,297	\$ (330,908)	-1.32%

General Administration increased by 24.72% for one-time expenditures over year 2012: Board Election for two seats, Negotiation for both Certificated & Classified union contract for 2013-14 through 2015-16, and changes in net OPEB cost.

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Governmental Activities

The Statement of Activities shows the cost of program services and the grants and charges to school districts offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements, tax revenue, and other unrestricted local revenue.

Table 3 shows a summary of the net cost of services for fiscal year 2011-12 and 2012-13.

Table 3 - Net Cost of Services					
	2013	2012	Change	Percentage Change	
Instruction	\$ 22,007,204	\$ 21,818,307	\$ 188,897	0.87%	
Instruction-related services	4,480,266	4,043,852	436,414	10.79%	
Pupil services	1,522,921	1,559,575	(36,654)	-2.35%	
General administration	2,686,300	2,139,821	546,479	25.54%	
Plant services	6,551,188	6,394,215	156,973	2.45%	
Other outgo	561,058	939,587	(378,529)	-40.29%	
Interest on long-term debt	6,583,337	4,972,014	1,611,323	32.41%	
Total Net Cost of Services	\$ 44,392,274	\$ 41,867,371	\$ 2,524,903	6.03%	

Instruction expenditures include activities directly dealing with the teaching of pupils.

Instruction-related services include the activities involved with assisting staff with the content and process of educating students.

Pupil services include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.

General Administration reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.

Plant Services involve keeping the school grounds, buildings, and equipment in effective working condition.

Ancillary Services represent the expenditures associated with co-curricular and athletic programs for students of the district.

Community Services include paid overtime or extra time for custodial services performed entirely as a result of community services activities.

Other outgo includes tuitions and transfers of resources between Union School District and other educational agencies for services provided to students.

Union School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

The Union School District's Funds

The district's governmental funds reported a combined fund balance of \$32,199,547 which is \$2,271,784 more than last year's total of \$29,927,763. Table 4 provides an analysis of the fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
	2013	2012	Change	Percentage Change
General	\$ 3,951,536	\$ 3,575,356	\$ 376,180	10.52%
Deferred Maintenance Fund	1,937,381	2,451,588	(514,207)	-20.97%
Building Fund	11,488,750	9,789,087	1,699,663	17.36%
Bond Interest and Redemption Fund	5,751,705	5,074,474	677,231	13.35%
Nonmajor Governmental Funds	22,737	20,841	1,896	9.10%
Internal Service Self Insurance Fund (OPEB)	9,047,438	9,016,417	31,021	0.34%
Total Fund Balances	\$ 32,199,547	\$ 29,927,763	\$ 2,271,784	7.59%

The District continues good fiscal management and increasing revenues by improving attendance rates. Future good financial performance will depend on management's ability to continue to control expenses and maintain revenues.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into two categories:

- Changes made at first interim to account for the categorical programs carryover balances from 2011-12 fiscal year.
- Increase / decrease in appropriation of current year programs.

While the District's final budget for the general fund anticipated that revenues would fall short of expenditures by \$4,176,301 the actual results for the year showed a net decrease of \$2,028,679. After transfers in and out netting \$2,404,859, the final actual change in the general fund's fund balance was \$376,180.

- Actual Expenditures were \$2.28M under budget due to unspent categorical programs at \$0.63M and 1.65M for site and department carryover to 2013-14.

Capital Assets

Table 5 shows fiscal year 2012-13 balances compared to 2011-12.

Table 5 - Summary of Capital Assets Net of Depreciation				
	2013	2012	Change	Percentage Change
Land	\$ 1,880,098	\$ 1,880,098	\$ -	0.00%
Work-in-Progress	720,102	515,015	205,087	39.82%
Site Improvements	609,960	647,148	(37,188)	-5.75%
Buildings and Improvements	103,746,367	104,666,860	(920,493)	-0.88%
Furniture and Equipment	1,132,409	1,182,393	(49,984)	-4.23%
Total Capital Assets - Net	\$ 108,088,936	\$ 108,891,514	\$ (802,578)	-0.74%

Union School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2013

Construction in progress:

- Purchase and installation of upgrade fire alarm system for Dartmouth Middle School, Guadalupe Elementary and Union Middle School.
- Replace Athenour Preschool's HVAC / Boiler.

Long Term Debt

Table 6 summarizes the District's outstanding debt for the last two fiscal years.

Table 6 - Summary of Long-term Liabilities				
	2013	2012	Change	Percentage Change
General Obligation Bonds	\$ 113,660,571	\$ 111,229,659	\$ 2,430,912	2.19%
Annual Net OPEB Obligation	1,730,417	1,263,881	466,536	36.91%
Compensated Absences	88,244	71,021	17,223	24.25%
Total Long-term Liabilities	\$ 115,479,232	\$ 112,564,561	\$ 2,914,671	2.59%

Factors bearing on the District's Future

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. District is projecting enrollment increase of 349 students in the next five years due to outstanding student academic performance by our highly qualified programs, teachers and staff. Facilities Master Plan will be reviewed and updated to house these new students.

The District, with the support of staff, parents and community successfully passed a six-year parcel tax. The additional revenue allows the District to offer more classes; thereby lowering class sizes that otherwise would have been increased due to reduction of State revenues.

The State's economic situation is a major factor affecting the District's future. With the passage of Prop.30 and State adopted Local Control Funding Formula, District is able to maintain funding level from 2012-13 without further reduction to general fund revenue. However, District still needs to find resources to cover step & column increases and inflation cost of supplies & services.

Recent federal legislation has modified the system of automatic budget cuts known as sequestration. While the final outcome of this fiscal discussion remains uncertain, the district has planned a 5.9 percent reduction in funding for all its' Title I, Title II and Title III allocations. District did not plan any program reduction; therefore the reduction is backfill with general fund revenue.

State appropriates \$200 per enrollment to support the integration of academic content standards in instruction known as Common Core. Funding provided by the State is not enough to fully implement all that is needed for professional development, instructional materials, integration of academic content standards through technology-based instruction and supporting computer-based assessments and providing equipment and infrastructure.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, and investors, with a general overview of the District's finances and to show accountability for the money received. If you have questions regarding this report or need additional financial information, contact Rita Sohal, Assistant Superintendent, Business Services, Union School District, 5175 Union Avenue, San Jose, CA 95124-5434, (408) 377-8010 x 4202.

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Basic Financial Statements

Union School District
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 32,120,023
Accounts receivable	2,415,902
Stores inventories	22,737
Total current assets	34,558,662
Noncurrent assets:	
Non-depreciable capital assets	2,600,200
Capital assets, net of depreciation	105,488,736
Total noncurrent assets	108,088,936
Total Assets	\$ 142,647,598
 Deferred Outflows of Resources	
Deferred loss on early retirement of long-term debt	\$ 1,417,138
Total Deferred Outflows of Resources	\$ 1,417,138
 Liabilities	
Current liabilities:	
Accounts payable	\$ 1,679,573
Unearned revenue	679,542
Accrued interest	1,560,000
Total current liabilities	3,919,115
Long-term liabilities:	
Due within one year	3,443,250
Due after one year	112,035,982
Total long-term liabilities	115,479,232
Total Liabilities	\$ 119,398,347
 Net Position	
Net Investment in Capital Assets	\$ (5,571,635)
Restricted for:	
Educational programs	1,041,249
Debt service	5,751,705
Capital projects	11,488,750
Total restricted	18,281,704
Unrestricted	11,956,320
Total Net Position	\$ 24,666,389

The notes to the financial statements are an integral part of this statement.

Union School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 24,404,661	\$ -	\$ 2,481,916	\$ (21,922,745)
Instruction-related services:				
Supervision of instruction	1,115,305	-	241,302	(874,003)
Instruction library, media and technology	1,200,951	-	7,357	(1,193,594)
School site administration	2,452,075	-	2,697	(2,449,378)
Pupil services:				
Home-to-school transportation	245,679	10,145	5,659	(229,875)
Food services	925,594	502,285	352,059	(71,250)
All other pupil services	1,461,217	-	239,421	(1,221,796)
General administration:				
Data processing	102,977	-	-	(102,977)
All other general administration	2,611,523	-	28,200	(2,583,323)
Plant services	6,599,317	-	380	(6,598,937)
Ancillary services	88,131	-	10,321	(77,810)
Enterprise Services	73,545	-	-	(73,545)
Transfers to other agencies	1,572,198	17,698	1,144,797	(409,703)
Interest on long-term debt	6,583,337	-	-	(6,583,337)
Total governmental activities	<u>\$ 49,436,510</u>	<u>\$ 530,128</u>	<u>\$ 4,514,109</u>	<u>(44,392,273)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				23,857,879
Taxes levied for debt service				5,819,596
Taxes levied for other specific purposes				1,310,880
Federal and state aid not restricted to specific purposes				7,404,948
Interest and investment earnings				252,335
Miscellaneous				<u>5,415,727</u>
Total general revenues and special items				<u>44,061,365</u>
Change in net position				(330,908)
Net position beginning				<u>24,997,297</u>
Net position ending				<u>\$ 24,666,389</u>

The notes to the financial statements are an integral part of this statement.

Union School District
Governmental Funds
Balance Sheet
June 30, 2013

	General Fund	Deferred Maintenance Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	\$ 4,162,418	\$ 1,828,352	\$ 11,412,657	\$ 5,748,462	\$ 102,624	\$ 23,254,513
Accounts receivable	2,340,626	1,869	11,825	3,243	49,540	2,407,103
Due from other funds	161,126	578,843	828,159	-	136	1,568,264
Stores inventories	-	-	-	-	22,737	22,737
Total Assets	\$ 6,664,170	\$ 2,409,064	\$ 12,252,641	\$ 5,751,705	\$ 175,037	\$ 27,252,617
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,050,535	\$ 471,683	\$ 126,906	\$ -	\$ 30,449	\$ 1,679,573
Due to other funds	1,588,730	-	30,812	-	121,851	1,741,393
Unearned revenue	73,369	-	606,173	-	-	679,542
Total Liabilities	2,712,634	471,683	763,891	-	152,300	4,100,508
Fund balances:						
Nonspendable:						
Revolving fund	5,000	-	-	-	-	5,000
Stores inventories	-	-	-	-	22,737	22,737
Restricted for:						
Educational programs	1,041,249	-	-	-	-	1,041,249
Debt service	-	-	-	5,751,705	-	5,751,705
Assigned for:						
Sites and programs	1,653,294	-	-	-	-	1,653,294
Parcel tax	68,260	-	-	-	-	68,260
Deferred maintenance five year plan	-	1,937,381	-	-	-	1,937,381
Capital projects	-	-	11,488,750	-	-	11,488,750
Unassigned:						
Economic uncertainties	1,183,733	-	-	-	-	1,183,733
Total Fund Balances	3,951,536	1,937,381	11,488,750	5,751,705	22,737	23,152,109
Total Liabilities and Fund Balances	\$ 6,664,170	\$ 2,409,064	\$ 12,252,641	\$ 5,751,705	\$ 175,037	\$ 27,252,617

The notes to the financial statements are an integral part of this statement.

Union School District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 June 30, 2013

Total fund balances - governmental funds \$ 23,152,109

Amounts reported in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Capital assets at cost	\$ 142,105,001	
Accumulated depreciation	<u>(34,016,065)</u>	108,088,936

Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds. (1,560,000)

An internal service fund is used by management to charge the costs of other postemployment benefits to individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 9,047,438

The difference between the reacquisition price and net carrying value of long-term debt when a bond is refunded is recorded as a deferred loss on the early retirement of long-term debt and a deferred inflow in the government-wide statement of net position and amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This transaction is not a current financial resource and is not included in the governmental fund statements. 1,417,138

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 year-end consist of:

General obligation bonds	\$ 113,660,571	
Annual net OPEB obligation	1,730,417	
Compensated absences (vacation)	<u>88,244</u>	<u>(115,479,232)</u>

Total net position - governmental activities \$ 24,666,389

The notes to the financial statements are an integral part of this statement.

Union School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2013

	General Fund	Deferred Maintenance Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
Revenue limit sources	\$ 27,317,370	\$ -	\$ -	\$ -	\$ -	\$ 27,317,370
Federal revenue	1,294,015	-	-	-	326,081	1,620,096
Other state	4,658,511	-	-	56,517	25,596	4,740,624
Other local	3,748,513	10,581	5,097,876	5,776,196	633,956	15,267,122
Total revenues	37,018,409	10,581	5,097,876	5,832,713	985,633	48,945,212
Expenditures:						
Current						
Instruction	24,341,300	-	-	-	-	24,341,300
Instruction-related services:						
Supervision of instruction	1,115,381	-	-	-	-	1,115,381
Instruction library, media and technology	1,158,128	-	-	-	-	1,158,128
School site administration	2,341,627	-	-	-	-	2,341,627
Pupil services:						
Home-to-school transportation	245,679	-	-	-	-	245,679
Food services	-	-	-	-	925,594	925,594
All other pupil services	1,451,159	-	-	-	-	1,451,159
General administration:						
Data processing	102,977	-	-	-	-	102,977
All other general administration	2,370,862	-	-	-	-	2,370,862
Plant services	3,702,062	-	76,348	-	-	3,778,410
Facilities acquisition and construction	484,039	680,432	706,086	-	131,289	2,001,846
Ancillary services	88,131	-	-	-	-	88,131
Enterprise Services	73,545	-	-	-	-	73,545
Transfers to other agencies	1,572,198	-	-	-	-	1,572,198
Debt service:						
Principal	-	-	-	2,823,085	-	2,823,085
Interest and fees	-	-	293,862	2,332,397	-	2,626,259
Total expenditures	39,047,088	680,432	1,076,296	5,155,482	1,056,883	47,016,181
Excess (deficiency) of revenues over (under) expenditures	(2,028,679)	(669,851)	4,021,580	677,231	(71,250)	1,929,031
Other financing sources (uses):						
Transfers in	2,815,577	155,644	-	-	73,146	3,044,367
Transfers out	(410,718)	-	(2,615,779)	-	-	(3,026,497)
Proceeds from bond issuance	-	-	18,150,000	-	-	18,150,000
Premium from bond issuance	-	-	925,000	-	-	925,000
Defeasance of general obligation bonds	-	-	(18,781,138)	-	-	(18,781,138)
Total other financing sources (uses)	2,404,859	155,644	(2,321,917)	-	73,146	311,732
Net changes in fund balances	376,180	(514,207)	1,699,663	677,231	1,896	2,240,763
Fund balances beginning	3,575,356	2,451,588	9,789,087	5,074,474	20,841	20,911,346
Fund balances ending	\$ 3,951,536	\$ 1,937,381	\$ 11,488,750	\$ 5,751,705	\$ 22,737	\$ 23,152,109

The notes to the financial statements are an integral part of this statement.

Union School District
Reconciliation of the Governmental Funds Statement of
Revenues and Expenditures and Changes in Fund Balances
to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

Total net change in fund balances - governmental funds \$ 2,240,763

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	\$ 2,128,936	
Depreciation expense	<u>(2,931,514)</u>	(802,578)

The governmental funds report debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Repayment of bond principal	\$ 2,823,085	
Defeasance of bond principal	18,781,138	
Proceeds from issuance of bond	(18,150,000)	
Bond premiums	<u>(925,000)</u>	2,529,223

In governmental funds, deferred loss on early retirement of long-term debt is recognized as other financing uses.

In the government-wide statements, the deferred losses on early retirement of long-term debt is amortized over the life of the debt. The difference between other financing uses and amortization is: (109,000)

Issuance costs, discounts and premiums related to bond issues is recorded as other financing sources and uses in the fund financial statements, but is recorded as assets or liabilities and amortized over the life of the bond in the statement of net position:

Amortization of bond premiums		111,500
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In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned exceeded the amounts used. (17,223)

In the statement of activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net postemployment benefit obligation is not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the statement of activities in the amount of: (466,536)

An internal service fund is used by management to charge the costs of other postemployment benefits to individual funds. The net revenue of the internal service fund is reported with governmental activities. 31,021

Accreted interest on capital appreciation bonds is not recorded in the governmental funds but is required to be recorded under the accrual basis of accounting in the government wide financial statements. (3,545,497)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (302,581)

Changes in net position of governmental activities \$ (330,908)

The notes to the financial statements are an integral part of this statement.

Union School District
Proprietary Funds
Statement of Net Position
June 30, 2013

	Internal Service Self Insurance Fund (OPEB)
Assets	
Cash and investments	\$ 8,865,510
Accounts receivable	8,799
Due from other funds	181,928
Total Assets	\$ 9,056,237
Liabilities	
Due to other funds	\$ 8,799
Total Liabilities	\$ 8,799
Net Position	
Unrestricted	\$ 9,047,438
Total Net Position	\$ 9,047,438

The notes to the financial statements are an integral part of this statement.

Union School District
Proprietary Funds
Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Internal Service Self Insurance Fund <u>(OPEB)</u>
Operating Revenues	\$ 149,452
Operating Expenses	<u>150,908</u>
Operating Income (Loss)	(1,456)
Nonoperating Revenues (Expenses):	
Interest income	<u>50,347</u>
Income Before Transfers	48,891
Transfers from Other Funds	181,928
Transfers to Other Funds	<u>(199,798)</u>
Change in Net Position	31,021
Beginning Net Position	<u>9,016,417</u>
Ending Net Position	<u><u>\$ 9,047,438</u></u>

The notes to the financial statements are an integral part of this statement.

Union School District
Proprietary Funds
Statement of Cash Flows
June 30, 2013

	Internal Service Self Insurance Fund (OPEB)
Cash Flows from Operating Activities	
Cash received from in-district premiums contributions	\$ 149,452
Cash paid for premiums and benefits	(150,908)
Net cash used for operating activities	(1,456)
Cash Flows from Noncapital Financing Activities	
Transfers from Other Funds	61,001
Transfers to Other Funds	(255,657)
Net cash used for noncapital financing activities	(194,656)
Cash Flows from Investing Activities	
Interest income	55,644
Net cash provided by investing activities	55,644
Increase (decrease) in Cash and Cash Equivalents	(140,468)
Cash and Cash Equivalents - Beginning	9,005,978
Cash and Cash Equivalents - Ending	\$ 8,865,510
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ (1,456)
Adjustments	-
Net cash provided by operating activities	(1,456)

The notes to the financial statements are an integral part of this statement.

Union School District
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2013

	Student Body Agency Fund Total
Assets	
Cash on hand and in banks	<u>\$ 130,805</u>
Total Assets	<u><u>\$ 130,805</u></u>
Liabilities	
Due to student groups	<u>\$ 130,805</u>
Total Liabilities	<u><u>\$ 130,805</u></u>

The notes to the financial statements are an integral part of this statement.

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Notes to the Basic Financial Statements

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Union School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the 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 U. S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements using the criteria established by GASB.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows, current liabilities and deferred inflows are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues result from non-exchange transactions or ancillary activities.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 45 to 60 days after year-end. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. For example, prepaid items and deferred charges.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue. Security deposits for leased facilities are recorded as unearned in the government-wide statements and in the fund statements.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, than unrestricted resources as they are needed.

E. 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, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. 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. The District's accounts are organized into major, nonmajor, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Deferred Maintenance Fund* is used to account for state apportionments and the District's contributions for deferred maintenance purposes and for items of maintenance approved by the State Allocation Board.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds and may not be used for any purposes other than those for which the bonds were issued.

The *Bond Interest and Redemption Fund* is used to account for taxes received and expended on interest and the redemption of principal of general obligation bonds.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed for purposes other than debt service or capital projects. The restricted or committed resources need to comprise a substantial portion of the inflows reported in the special revenue fund.

The District maintains one nonmajor special revenue fund.

- The *Cafeteria Fund* is used to account separately for federal, state and local resources to operate the food service program and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program.

Capital Projects Funds are used to account for resources restricted, committed or assigned for capital outlays. The District maintains one nonmajor capital projects fund.

- The *Capital Facilities Fund* is used to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development. Expenditures are restricted to the purposes specified in Government Code Sections 65970-65981 or to the items specified in agreements with the developer.

Proprietary Funds:

Internal Service Funds are created principally to render services to other organizational units of the District on a cost-reimbursement basis. These funds are generally intended to be self-supporting.

- The *Self Insurance Fund (OPEB)* accounts for other post-employment benefit premiums, such as retirement health, dental and vision, and the annual required contributions toward the net OPEB obligation.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and major special revenue funds are presented as Required Supplementary Information.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

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

G. 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 on June 30.

H. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation except for non-interest bearing accounts which are completely insured. In accordance with *Education Code* Section 41001, the district maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made. The following is a summary of the District's authorized investments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Under GASB 31, the District must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year. The District has determined that the amounts of any such adjustments would not be material.

b) Inventories and Prepaid Expenditures

Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets. Inventories consist of expendable food and supplies held for consumption.

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when purchased.

c) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$5,000 or more and are reported 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 outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset’s lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	15
Buildings	40
Portable buildings	15-20
Building improvements	15-20
Furniture and fixtures	10-15
Playground equipment	15-20
Food services & transportation equipment	5-15
Vehicles	5
Computer system and equipment	5
Office equipment	5

d) Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified and certificated school members who retire after January 1, 1999. At retirement, each classified member will receive .004 year of service credit for each day of unused sick leave, and each certificated member will receive .0054 year of service credit for each day of unused sick leave.

e) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts as well as issuance costs, when applicable, are deferred and amortized over the life of the bonds. In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources or uses.

f) Fund Balance Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District' minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 3 percent of general fund operating expenditures and other financing uses.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Executive Director and the Deputy Director of Finance.
- Unassigned includes positive fund balance within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District's fund balance classifications are detailed in the governmental funds balance sheet on page 12.

g) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Educational Program restrictions reflect the amounts to be expended on specific school programs funded by federal and state resources and from locally funded programs with stipulated uses.

Debt service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Capital projects restrictions will be used for the acquisition and construction of capital facilities.

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

h) Operating Revenue and Expenses (Proprietary Funds)

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating revenues are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

i) Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's base revenue limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

j) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District pools its risks with other school districts in the County as a part of two public entity risk pools. The District pays annual premiums for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels. See Note 8 for further disclosure.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

k) Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated as part of the reconciliation to the government-wide financial statements.

l) Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

m) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

I. New Accounting Pronouncements

Summary of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Issued 06/11)*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of Net Position by the government that is applicable to a future reporting period, and an acquisition of Net Position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement were effective as of July 1, 2012.

Summary of Statement No. 65, *Items Previously Reported as Assets and Liabilities (Issued 03/12)*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. However, the District has chosen to implement these reporting requirements as of July 1, 2012.

J. Upcoming Accounting and Reporting Changes

Summary of Statement No. 67 *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25 (Issued 06/12)*. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The determination of the impact on the Entity's

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

financial statements from the implementation of this standard is pending as of the issuance date of this report.

Summary of Statement No. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the Entity's financial statements from the implementation of this standard is pending as of the issuance date of this report.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2013 is as follows:

Deposit or Investment	Carrying Amount	Fair Value	Investment Rating
<i>Government-Wide Statements:</i>			
Cash in county treasury investment pool	\$ 32,105,577	\$ 32,001,523	AA
Cash in banks	9,446	9,446	n/a
Cash in revolving fund	5,000	5,000	n/a
Total Government-Wide Cash and Investments	32,120,023	32,015,969	
<i>Fiduciary Funds:</i>			
Cash in banks	130,805	130,805	n/a
Total Cash and Investments	\$ 32,250,828	\$ 32,146,774	

Cash in Banks and in Revolving Funds

Interest bearing cash balances in banks and revolving funds are insured up to \$250,000 by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2013, the bank balance of the District's accounts with banks was \$150,039, which was fully insured by FDIC.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with Education Code Section 41001. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Policies and Practices

The District is authorized under California Government Code Section 53635 to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of Santa Clara Investment Pool. The pool has a fair value of approximately \$4.524 billion and an amortized book value of \$4.52 billion. The average maturity of the pool was 374 days and holds no derivative products.

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County of Santa Clara Investment Pool is governed by the County's general investment policy. The investment with the County of Santa Clara Investment Pool is rated at least Aa1 by Moody's Investor Service.

Custodial Credit Risk - Deposits

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

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2013:

Receivables	General Fund	Deferred Maintenance Fund	Building Fund	Bond Interest and Redemption Fund	Internal Service Fund	Nonmajor Funds	Total
Federal Government:							
Child Nutrition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,870	\$ 45,870
Special Education	350,517	-	-	-	-	-	350,517
Other Federal Resources	2,966	-	-	-	-	-	2,966
State Government							
Lottery	398,944	-	-	-	-	-	398,944
Class Size Reduction	759,393	-	-	-	-	-	759,393
Special Education	575,865	-	-	-	-	-	575,865
Child Nutrition	-	-	-	-	-	3,569	3,569
Other Resources	252,941	1,869	11,825	3,243	8,799	101	278,778
Total Accounts Receivable	\$ 2,340,626	\$ 1,869	\$ 11,825	\$ 3,243	\$ 8,799	\$ 49,540	\$ 2,415,902

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

4. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2013 were as follows:

Capital Assets	Balance			Balance June 30, 2013
	July 01, 2012	Additions	Deletions	
Land - not depreciable	\$ 1,880,098	\$ -	\$ -	\$ 1,880,098
Work-in-progress - not depreciable	515,015	720,102	515,015	720,102
Site improvements	837,717	4,000	-	841,717
Buildings and improvements	134,467,498	1,808,174	-	136,275,672
Furniture and equipment	2,303,957	111,675	28,220	2,387,412
Total capital assets	140,004,285	2,643,951	543,235	142,105,001
Less accumulated depreciation for:				
Site improvements	190,569	41,188	-	231,757
Buildings and improvements	29,800,638	2,728,667	-	32,529,305
Furniture and equipment	1,121,564	161,659	28,220	1,255,003
Total accumulated depreciation	31,112,771	2,931,514	28,220	34,016,065
Total capital assets - net depreciation	\$ 108,891,514	\$ (287,563)	\$ 515,015	\$ 108,088,936

Depreciation expense was charged to governmental activities as follows:

Depreciation expense was charged to governmental activities as follows:	
Instruction	\$ 89,681
Supervision of instruction	950
Instruction library, media and technology	42,972
All other general administration	6,200
Plant services	2,791,711
Total depreciation expense	\$ 2,931,514

5. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund receivables and payables (*Due From/Due To*) consisted of the following as of June 30, 2013:

Due From (Receivable In)	Due To (Payable In)					
	General Fund	Deferred Maintenance Fund	Building Fund	Internal Service Self-Insurance Fund	Nonmajor Funds	Total Due To
General Fund	\$ -	\$ 578,843	\$ 827,823	\$ 181,928	\$ 136	\$ 1,588,730
Building Fund	30,812	-	-	-	-	30,812
Nonmajor Funds	121,515	-	336	-	-	121,851
Internal Service Self-Insurance Fund	8,799	-	-	-	-	8,799
Total Due From	\$ 161,126	\$ 578,843	\$ 828,159	\$ 181,928	\$ 136	\$ 1,750,192

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Interfund transfers consisted of the following for the fiscal year ended June 30, 2013:

Fund Receiving Transfers	Fund Making Transfers	Amount
General Fund	Self Insurance Fund	\$ 199,798 1
General Fund	Building Fund	2,615,779 2
Cafeteria Fund	General Fund	73,146 3
Deferred Maintenance Fund	General Fund	155,644 4
Self Insurance Fund	General Fund	181,928 5
		<u>\$ 3,226,295</u>

1 Transfer of resources to pay obligations for other post employment benefits and interest earnings.
2 Transfer to General Fund to make the 3% Economic Uncertainties and building lease management.
3 General Fund contribution to Food Service Program.
4 General Fund contribution to Deferred Maintenance program.
5 General Fund contribution to OPEB costs for retirees.

6. LONG-TERM DEBT

Schedule of Changes in Long-term Debt

A schedule of changes in long-term debt for the fiscal year ended June 30, 2013, is shown below:

Long-term Debt	Balance			Balance June 30, 2013	Due Within One Year
	July 01, 2012	Additions	Deletions		
General Obligation Bonds	\$ 111,229,659	\$ 24,292,413	\$ 21,861,501	\$ 113,660,571	\$ 3,443,250
Annual Net OPEB Obligation	1,263,881	629,074	162,538	1,730,417	-
Compensated Absences	71,021	36,270	19,047	88,244	-
Total Long-term Debt	\$ 112,564,561	\$ 24,957,757	\$ 22,043,086	\$ 115,479,232	\$ 3,443,250

Payments on the general obligation bonds were made from the Bond Interest and Redemption Fund using local revenues. Compensated absences and net OPEB obligations were paid by the fund for which the employee worked. Capital leases were paid from the General Fund.

General Obligation Bonds Payable

The following summarizes the general obligation bonds outstanding as of June 30, 2013:

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2013
					Outstanding July 01, 2012	Additions/ Adjustments	Issued (Redeemed)	
1999 GOB, Series A	1999	2025	5.1-6.2%	\$ 38,902,591	\$ 20,296,848	\$ -	\$ (1,623,085)	\$ 18,673,763
GOB, Series B	2001	2027	5.71-5.76%	29,481,172	10,336,172	-	-	10,336,172
GOB, Series C	2004	2030	2.62-5.48%	11,998,877	11,598,877	-	(3,695,000)	7,903,877
GOB, Series D	2004	2021	2.0-4.8%	20,240,000	16,305,000	-	(13,800,000)	2,505,000
1999 GOB, Series D	2005	2031	3.25-5.29%	11,616,142	11,471,142	-	(960,000)	10,511,142
2012 Refunding Bond, Series A	2012	2026	2-4%	7,100,000	-	7,100,000	-	7,100,000
2012 Refunding Bond, Series B	2012	2022	1.073-2.934%	11,050,000	-	11,050,000	-	11,050,000
Subtotal General Obligation Bonds				130,388,782	70,008,039	18,150,000	(20,078,085)	68,079,954
Bond Premiums				1,137,744	819,244	925,000	(111,500)	1,632,744
Accreted Interest				-	40,402,376	5,217,413	(1,671,916)	43,947,873
Total General Obligation Bonds				\$ 131,526,526	\$ 111,229,659	\$ 24,292,413	\$ (21,861,501)	\$ 113,660,571

The Union School District General Obligation Bonds, Election of 1999, Series A (the "Series A Bonds"), in the aggregate principal amount of \$38,902,591, were issued by the County of Santa Clara on behalf of the District. The Series A bonds were authorized at a special election of the registered voters of the District

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

held on June 8, 1999, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$92,000,000 principal amount of general obligation bonds to be used for the repair of school facilities.

The Union School District General Obligation Bonds, Series B (the “Series B Bonds”), in the aggregate amount of \$29,481,172 were issued by the County of Santa Clara on behalf of the District to raise money to be used for the repair of school facilities.

The Union School District General Obligation Bonds, Series C (the “Series C Bonds”), in the aggregate principal amount of \$11,998,877, and the 2004 General Obligation Refunding Bonds, in the aggregate principal amount of \$20,240,000, were issued by the County of Santa Clara on behalf of the District to raise money to be used to upgrade, acquire, construct and equip school facilities and to advance refund the aggregate principal amount outstanding of the current interest serial bonds (“Series B Bonds”) respectively.

During November, 2005, the Union School District General Obligation Bonds, Series D (the “Series D Bonds”), in the aggregate amount of \$11,616,142 were issued by the County of Santa Clara on behalf of the District to raise money to be used for the upgrade, acquisition, and construction of school facilities.

During the fiscal year 2012-13, the District issued \$18,150,000 in General Obligation Refunding Bonds with a premium of \$925,000. The bonds were issued to refund and partially defease general obligation bonds which were issued previously to improve schools. Payments of principal and interest on the bonds will be made payable on March 1 and September 1 of each year commencing March 1, 2013 from the collection of *ad valorem* taxes upon all property subject to taxation by the District. The District defeased the general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As a result of the defeasance, the District recognized a deferred loss on early retirement of long-term debt of \$1,526,138, but saved \$1,157,177 in future cash flows from debt service. The present value of the net savings was \$1,124,625.

The Bonds are payable solely from ad valorem property taxes levied and collected by the County of Santa Clara. The Board of Supervisors of the County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, upon all property subject to taxation by the District without limitation or rate or amount (except certain personal property which is taxable at limited rates).

The annual debt service requirements of the District’s general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 3,443,250	\$ 2,415,785	\$ 5,859,035
2015	3,207,286	2,678,837	5,886,123
2016	3,355,402	2,856,099	6,211,501
2017	3,626,363	3,102,202	6,728,565
2018	4,209,152	3,354,493	7,563,645
2019-2023	20,865,343	25,519,721	46,385,064
2024-2028	17,075,519	47,637,294	64,712,813
2028-2032	12,297,639	31,922,358	44,219,997
Total Debt Service	\$ 68,079,954	\$ 119,486,789	\$ 187,566,743

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

7. COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various litigations arising from the normal course of business. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Awards, and Grants

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 generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not have a material adverse effect on the overall financial position of the District at June 30, 2013.

8. JOINT POWERS AGREEMENTS

The District is a member of the Santa Clara County Schools Insurance Group (SCCSIG) public entity risk pool (JPA). The District pays an annual premium to this entity for their workers compensation and property liability coverage. Excess liability coverage for property liability amounts above \$1,000,000 is provided by SELF. The relationship between the District, the pools, and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

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

The following is a summary of each JPA's most recent financial statement information:

<i>Risk Management JPA's</i>	SCCSIG June 30, 2012	SELF June 30, 2012
Total Assets	\$ 13,962,901	\$ 171,510,000
Total Liabilities	4,591,704	132,654,000
Total Equity	9,371,197	38,856,000
Total Revenues	28,826,809	17,347,000
Total Expenditures	28,281,323	11,741,000

9. 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 Public Employees' Retirement System ("PERS").

State Teachers' Retirement System

a) Plan Description

The District contributes to the 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

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

b) Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012 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 year ended June 30, 2013, 2012, and 2011 were \$1,607,913, \$1,573,186 and \$1,588,264, respectively, and equal 100% of the required contributions for each year.

Public Employees' Retirement System

a) Plan Description

The District contributes to PERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by PERS. 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 Employee's Retirement Law. PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814.

b) Funding Policy

Active plan members are required to contribute 7% or 6% of their salary, depending on their hire date, 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 PERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 11.417% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contribution to PERS for the fiscal year ended June 30, 2013, 2012, and 2011 were \$467,266 \$390,397, and \$393,661, respectively, and equal 100% of the required contributions for each year. The current district policy is to pay the employee portion.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description. The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical, dental, and vision benefits for the participating groups of employees. Eligibility for retiree health benefits is based on age and service of the employee. Although all participants are enrolled in either the State Teachers' Retirement System (STRS) or California Public Employees' Retirement System (PERS), receipt of pension benefits is not required for retiree health and welfare eligibility.

Certificated (UDEA) - Certificated employees who retire on or after age 58 with at least 12 years of service in the District are entitled to reimbursement for PERS medical benefits until age 65 or when Medicare/MediCal commences. The reimbursement categories are \$250 per month for retirees with 12-19

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

Classified (CSEA) - Classified employees who retire on or after age 62 with at least 10 years of service in the District are entitled to \$250 per month reimbursement for PERS medical benefits until age 65 or when Medicare/MediCal commences.

Management and Confidential - Management and Confidential employees who retire on or after age 58 with at least 10 years of service in the District are entitled to reimbursement for PERS medical benefits until age 65 or when Medicare/MediCal commences. The plan reimburses the covered retiree for the monthly PERS medical premium, not to exceed the Kaiser family premium.

All employees - All retirees may choose to continue enrollment in a CalPERS medical plan after age 65. For as long as the retiree is enrolled, the District will pay a monthly administrative cost which equaled \$44.80 in 2012, \$51.75 in 2013 and \$59.50 in 2014. The amount of the annual increase is projected to increase each year by 5%.

Funding Policy. The District currently pays for post-employment healthcare benefits on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 657,596
Interest on net OPEB obligation	50,555
Adjustment to annual required contribution	(79,077)
Annual OPEB cost (expense)	629,074
Contributions made	(162,538)
Increase in net OPEB obligation	466,536
Net OPEB obligation - beginning of year	1,263,881
Net OPEB obligation - end of year	\$ 1,730,417

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	\$ 542,351	31.45%	\$ 864,488
6/30/2012	566,648	29.52%	1,263,881
6/30/2013	629,074	25.84%	1,730,417

Actuarial Methods and Assumptions. In the Projected Unit Credit Method, the cost of each individual's OPEB benefits is amortized on a straight-line basis over his/her working career. For each employee, a "normal cost" is computed, the amount which, if accumulated during each year of employment, will at retirement be sufficient to fund the expected benefits for that individual. The sum of all the individual

Union School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

normal costs for all employees is called the Normal Cost. The accumulated value of all normal costs attributed to prior years, including the full value of benefits for all currently retired employees, is called the Actuarial Accrued Liability. The unfunded Actuarial Accrued Liability is amortized over a period of future years. The longest amortization period permitted under GASB 45 is 30 years. The ARC is the sum of the Normal Cost and the amortization of the unfunded Actuarial Accrued Liability. The remaining amortization period at July 1, 2012, was twenty-eight years.

The actuarial assumptions included a discount rate of 4%. Healthcare cost trend rates ranged from an initial 7% to an ultimate rate of 6%. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflect the expected investment return on the District's investments.

Required Supplementary Information (OPEB Schedule of Funding Progress)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/2010	\$ -	\$ 4,982,992	\$ 4,982,992	0.00%	\$ 22,891,326	21.77%
7/1/2012	-	5,827,016	5,827,016	0.00%	25,213,188	23.11%

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REQUIRED
SUPPLEMENTARY
INFORMATION

Union School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive - (Negative)
Revenues:				
Revenue limit sources	\$ 24,226,422	\$ 27,285,907	\$ 27,317,370	\$ 31,463
Federal revenues	1,130,043	1,563,884	1,294,015	(269,869)
Other state	4,328,605	4,552,862	4,658,511	105,649
Other local	2,959,026	3,753,058	3,748,513	(4,545)
Total revenues	<u>32,644,096</u>	<u>37,155,711</u>	<u>37,018,409</u>	<u>(137,302)</u>
Expenditures:				
Certificated salaries	19,734,838	20,043,384	19,821,010	222,374
Classified salaries	4,816,543	5,192,648	4,968,079	224,569
Employee benefits	6,718,896	6,601,191	6,484,414	116,777
Books and supplies	1,035,868	1,870,504	1,429,398	441,106
Services and other operating expenditures	5,051,277	5,695,445	4,220,832	1,474,613
Capital outlay	61,000	180,925	551,155	(370,230)
Other outgo	2,102,043	1,747,915	1,572,200	175,715
Total expenditures	<u>39,520,465</u>	<u>41,332,012</u>	<u>39,047,088</u>	<u>2,284,924</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,876,369)</u>	<u>(4,176,301)</u>	<u>(2,028,679)</u>	<u>2,147,622</u>
Other financing sources (uses):				
Transfers in	7,095,805	3,639,805	2,815,577	(824,228)
Transfers out	(287,617)	(287,617)	(410,718)	(123,101)
Total other financing sources (uses)	<u>6,808,188</u>	<u>3,352,188</u>	<u>2,404,859</u>	<u>(947,329)</u>
Change in fund balance	(68,181)	(824,113)	376,180	1,200,293
Fund balances beginning	<u>3,575,356</u>	<u>3,575,356</u>	<u>3,575,356</u>	<u>-</u>
Fund balances ending	<u>\$ 3,507,175</u>	<u>\$ 2,751,243</u>	<u>\$ 3,951,536</u>	<u>\$ 1,200,293</u>

Union School District
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual (GAAP)
Deferred Maintenance Fund
For the Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources:	\$ -	\$ -	\$ -	\$ -
Federal revenues	-	-	-	-
Other state	-	-	-	-
Other local	12,415	12,415	10,581	(1,834)
Total revenues	<u>12,415</u>	<u>12,415</u>	<u>10,581</u>	<u>(1,834)</u>
Expenditures:				
Certificated salaries	-	-	-	-
Classified salaries	-	-	-	-
Employee benefits	-	-	-	-
Books and supplies	-	-	-	-
Services and other operating expenditures	11,828	84,717	44,060	40,657
Capital outlay	1,640,000	1,567,111	636,372	930,739
Other outgo	-	-	-	-
Total expenditures	<u>1,651,828</u>	<u>1,651,828</u>	<u>680,432</u>	<u>971,396</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,639,413)</u>	<u>(1,639,413)</u>	<u>(669,851)</u>	<u>969,562</u>
Other financing sources (uses):				
Transfers in	156,028	156,028	155,644	(384)
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>156,028</u>	<u>156,028</u>	<u>155,644</u>	<u>(384)</u>
Change in fund balance	(1,483,385)	(1,483,385)	(514,207)	969,178
Fund balances beginning	<u>2,451,588</u>	<u>2,451,588</u>	<u>2,451,588</u>	<u>-</u>
Fund balances ending	<u>\$ 968,203</u>	<u>\$ 968,203</u>	<u>\$ 1,937,381</u>	<u>\$ 969,178</u>

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SUPPLEMENTARY
INFORMATION

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*Nonmajor Governmental Funds
Combining Schedules*

Union School District
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2013

	Special Revenue Fund	Capital Projects Fund	
	Cafeteria Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 3,705	\$ 98,919	\$ 102,624
Accounts receivable	49,455	85	49,540
Due from other funds	136	-	136
Stores inventories	22,737	-	22,737
Total Assets	\$ 76,033	\$ 99,004	\$ 175,037
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 30,449	\$ -	\$ 30,449
Due to other funds	22,847	99,004	121,851
Total Liabilities	53,296	99,004	152,300
Fund Balances:			
Nonspendable stores inventories	22,737	-	22,737
Unassigned	-	-	-
Total Fund Balances	22,737	-	22,737
Total Liabilities and Fund Balances	\$ 76,033	\$ 99,004	\$ 175,037

Union School District
 Nonmajor Governmental Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2013

	Special Revenue Fund	Capital Projects Fund	
	Cafeteria Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds
Revenues:			
Federal revenue	\$ 326,081	\$ -	\$ 326,081
Other state	25,596	-	25,596
Other local	502,667	131,289	633,956
Total revenues	<u>854,344</u>	<u>131,289</u>	<u>985,633</u>
Expenditures:			
Current			
Pupil services:			
Food services	925,594	-	925,594
Facilities acquisition and construction	-	131,289	131,289
Total expenditures	<u>925,594</u>	<u>131,289</u>	<u>1,056,883</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(71,250)</u>	<u>-</u>	<u>(71,250)</u>
Other financing sources (uses):			
Transfers in	73,146	-	73,146
Transfers out	-	-	-
Total other financing sources (uses)	<u>73,146</u>	<u>-</u>	<u>73,146</u>
Change in fund balances	1,896	-	1,896
Fund balances beginning	<u>20,841</u>	<u>-</u>	<u>20,841</u>
Fund balances ending	<u>\$ 22,737</u>	<u>\$ -</u>	<u>\$ 22,737</u>

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STATE AND FEDERAL
AWARD COMPLIANCE
SECTION

Union School District

Organization

June 30, 2013

The Union School District was originally established in 1863. The District is located in Santa Clara County and there were no changes in District boundaries during the year. The District maintains six elementary schools, two middle schools and one special education preschool.

The Board of Education for the fiscal year ended June 30, 2013, was comprised of the following members:

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Harold Stuart	President	2016
Shelia Billings	Vice President	2014
Janice Hector	Clerk	2014
Cindy Goodsell	Member	2014
Vickie Brown	Member	2016

Administration

Jacqueline Horejs
Superintendent

Rita Sohal
Assistant Superintendent of Business Services

Union School District
 Schedule of Average Daily Attendance
 For the Fiscal Year Ended June 30, 2013

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	582	584
Grades one through three	1,736	1,737
Grades four through six	1,672	1,673
Grades seven and eight	1,081	1,081
Special education	81	81
Home and hospital	2	2
Elementary Totals	<u>5,154</u>	<u>5,158</u>
ADA Totals	<u>5,154</u>	<u>5,158</u>

Union School District
 Schedule of Instructional Time Offered
 For the Fiscal Year Ended June 30, 2013

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes ⁽¹⁾	1986-87 Minutes Requirements	Reduced 1986-87 Minutes Requirements ⁽¹⁾	2012-13 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	31,680	30,775	36,000	34,971	39,750	175	0	In compliance
Grade 1	51,045	49,587	50,400	48,960	53,070	175	0	In compliance
Grade 2	51,045	49,587	50,400	48,960	53,070	175	0	In compliance
Grade 3	51,045	49,587	50,400	48,960	53,070	175	0	In compliance
Grade 4	52,800	51,291	54,000	52,457	54,870	175	0	In compliance
Grade 5	52,800	51,291	54,000	52,457	54,870	175	0	In compliance
Grade 6	52,800	51,291	54,000	52,457	57,498	175	0	In compliance
Grade 7	52,800	51,291	54,000	52,457	57,498	175	0	In compliance
Grade 8	52,800	51,291	54,000	52,457	57,498	175	0	In compliance

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Educational Code Section 46201.

⁽¹⁾For the 2012-13 school year, a school district, county office of education or charter school may reduce the equivalent of up to 5 days of instruction or the equivalent number of instructional minutes without incurring penalties as set forth in Sections 46201.2(a) and 46201.3(a). A school district, county office of education, or charter school shall receive revenue limit funding based on the adjustments prescribed pursuant to Section 42238.146 whether or not it reduces the number of school days or instructional minutes.

Union School District
Schedule of Charter Schools
June 30, 2013

This schedule is provide to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no charter schools in the Union School District.

Union School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2013

	(Budget ¹) 2014	2013	2012	2011
<u>General Fund</u>				
Revenues and other financial sources	\$ 41,526,558	\$ 39,833,986	\$ 39,264,433	\$ 37,569,549
Expenditures	41,446,595	39,047,088	38,551,196	37,954,340
Other uses and transfers (out)	297,566	410,718	285,839	290,264
Total outgo	41,744,161	39,457,806	38,837,035	38,244,604
Change in fund balance	\$ (217,603)	\$ 376,180	\$ 427,398	\$ (675,055)
Ending fund balance	\$ 3,733,933	\$ 3,951,536	\$ 3,575,356	\$ 3,147,958
Available reserves ⁽²⁾	\$ 1,252,326	\$ 1,183,733	\$ 1,165,113	\$ 1,147,338
Reserve for economic uncertainties	\$ 1,252,326	\$ 1,183,733	\$ 1,165,113	\$ 1,147,338
Unassigned fund balance	\$ -	\$ -	\$ -	\$ -
Available reserves as a percentage of total outgo	3.0%	3.0%	3.0%	3.0%
Total long-term debt	\$ 112,035,982	\$ 115,479,232	\$ 112,564,561	\$ 112,447,533
Average daily attendance (ADA) at P-2	5,305	5,154	4,910	4,653

ADA has increased by 501 over the past three years. The district anticipates a increase of 151 ADA in 2012-13.

The general fund balance has increased by \$803,578 over the past three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, other uses (total outgo). The fiscal year 2013-14 budget projects a \$217,603 decrease in fund balance.

The district has had an operating deficit in one of the past three years. Total long-term debt has increased by \$3,031,699 over the past three years.

¹ Budget numbers are based on the first adopted budget of the fiscal year 2013/14.

² Available reserves consists of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

Union School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2013

<u>PROGRAM NAME</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE:			
Passed through California Department of Education:			
Child Nutrition - National School Lunch Program	10.555	13524	<u>\$ 326,081</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>326,081</u>
U. S. DEPARTMENT OF EDUCATION:			
Passed through California Department of Education:			
<i>Special Education Cluster</i>			
IDEA Local Assistance	84.027 ⁽¹⁾	13379	728,893
IDEA Local Assistance - Private School	84.027 ⁽¹⁾	10115	5,565
IDEA Preschool Local Assistance	84.027 ⁽¹⁾	13682	79,958
IDEA Mental Health	84.027 ⁽¹⁾	14468	36,974
IDEA Preschool	84.173 ⁽¹⁾	13430	36,249
IDEA Preschool Staff Development	84.173 ⁽¹⁾	13431	298
State Improvement Grant, Improving Special Ed. Systems	84.323 ⁽¹⁾	14913	<u>2,227</u>
<i>Total Special Education Cluster</i>			<u>890,164</u>
<i>Title I, Part A Cluster</i>			
Title I, Basic Grants Low Income and Neglected	84.010	14981	<u>218,656</u>
<i>Total Title I, Part A Cluster</i>			<u>218,656</u>
Medi-Cal Billing Option	93.778	10013	65,390
NCLB: Title III, Limited English Proficient (LEP) Student Program	84.365	14346	44,495
Title II, Improving Teacher Quality	84.367	14341	<u>99,258</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>1,317,963</u>
TOTAL FEDERAL PROGRAMS			<u><u>\$ 1,644,044</u></u>

⁽¹⁾ Audited as major program

Union School District
 Reconciliation of Annual Financial and Budget Report (SACS)
 With Audited Financial Statements
 For the Fiscal Year Ended June 30, 2013

	General Fund	Deferred Maintenance Fund	Building Fund	Bond Interest and Redemption Fund	Other Nonmajor Governmental Funds	Internal Service Self Insurance Fund (OPEB)
June 30, 2013 Annual Financial and Budget Report Fund Balances	\$ 3,951,536	\$ 1,937,381	\$ 11,488,750	\$ 5,751,705	\$ 22,737	\$ 9,047,438
Adjustments and Reclassifications: None	-	-	-	-	-	-
June 30, 2013 Audited Financial Statements Fund Balances	<u>\$ 3,951,536</u>	<u>\$ 1,937,381</u>	<u>\$ 11,488,750</u>	<u>\$ 5,751,705</u>	<u>\$ 22,737</u>	<u>\$ 9,047,438</u>

Union School District
Schedule of Excess Sick Leave
For the Fiscal Year Ended June 30, 2013

Section 19833.5 (a)(3)(c) Disclosure

The District does not provide more than 12 sick leave days in a school year to any group of employees who are CalSTRS members.

Union School District
Notes to State and Federal Award Compliance Section
For the Fiscal Year Ended June 30, 2013

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes in the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments in 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 Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

E. Schedule of Expenditures 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 OMB Circular A-133 requirements.

F. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

G. Schedule of Excess Sick Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Union School District
Notes to State and Federal Award Compliance Section
For the Fiscal Year Ended June 30, 2013

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

4. EARLY RETIREMENT INCENTIVE PROGRAM

The District has not adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years.

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OTHER INDEPENDENT
AUDITOR'S REPORTS



INDEPENDENT ADITOR'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
Union School District
San Jose, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Union School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2013 .

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the District's financial statements are free from 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 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.

C & A LLP

November 14, 2013
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Union School District
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited Union School District's (the District) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The 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 the 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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.



Report on Internal Control over Compliance

Management of the 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 the 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 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 The 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.

Restricted Use

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

C & A LLP

November 14, 2013
San Jose, California



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
 THAT COULD HAVE DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

Board of Trustees
 Union School District
 San Jose, California

Compliance

We have audited the Union School District's (the District) compliance with the types of State compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, published by the Education Audit Appeals Panel, for the year ended June 30, 2013. The applicable State compliance requirements are identified in the table below.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the District’s management.

Auditors’ Responsibility

Our responsibility is to express an opinion on the District’s compliance with the State laws and regulations based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, published by the Education Audit Appeals Panel. Those standards and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below occurred. An audit includes examining, on a test basis, evidence supporting the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District’s compliance with those requirements.

In connection with the compliance audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Attendance Reporting	6	6
Teacher Certification and Missassignments	3	3
Kindergarten Continuance	3	3
Independent Study	23	None
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	6
County Offices of Education	3	Not applicable
Instructional Materials - General Requirements	8	8
Ratios of Administrative Employees to Teachers	1	1
Classroom Teacher Salaries	1	1



<u>Description</u>	<u>Procedures in the Audit Guide</u>	<u>Procedures Performed</u>
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	1
School Accountability Report Card	3	3
Public Hearing Requirements - Receipt of Funds	1	1
Juvenile Courts	8	Not applicable
Class Size Reduction:		
General Requirements	7	7
Option One	3	3
Option Two	4	Not applicable
Districts or Charter Schools with Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	3	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes - Classroom Based	4	Not applicable

We did not perform the audit procedures for the Full-time Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2013.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing over compliance and the results of that testing based on the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-13*. Accordingly, this report is not suitable for any other purpose.

C & A LLP

November 14, 2013
 San Jose, California

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FINDINGS AND
RECOMMENDATIONS

Union School District
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2013

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses?	___ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u>x</u> No
Non-compliance material to financial statements noted?	___ Yes <u>x</u> No

Federal Awards

Internal control over major programs:	
Material weaknesses?	___ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u>x</u> No

Type of auditor's report issued on compliance over major programs	<u>Unmodified</u>
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 Numbers</u>	<u>Name of Federal Program</u>
84.027	Special Education Cluster
84.173	Special Education Cluster
84.323	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 300,000</u>
Auditee qualified as low risk auditee?	___ Yes <u>x</u> No

State Awards

Internal control over state programs:	
Material weaknesses?	___ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u>x</u> No

Type of auditor's report issued on compliance over state programs:	<u>Unmodified</u>
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Union School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2013

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Union School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2013

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None