

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

**AUDIT REPORT**

**JUNE 30, 2012**



**CHAVAN & ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
1475 SARATOGA AVE., SUITE 180  
SAN JOSE, CA 95129

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**Union School District**  
County of Santa Clara

Table of Contents

| <b>TITLE</b>                                                                                                                                       | <b>PAGE</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>FINANCIAL SECTION:</b>                                                                                                                          |             |
| Independent Auditor’s Report.....                                                                                                                  | 1 - 2       |
| Management’s Discussion and Analysis.....                                                                                                          | 3 - 9       |
| Basic Financial Statements:                                                                                                                        |             |
| Government-Wide Financial Statements:                                                                                                              |             |
| Statement of Net Assets .....                                                                                                                      | 10          |
| Statement of Activities.....                                                                                                                       | 11          |
| Fund Financial Statements:                                                                                                                         |             |
| Governmental Funds Balance Sheet .....                                                                                                             | 12          |
| Reconciliation of the Governmental Funds Balance Sheet to the<br>Statement of Net Assets .....                                                     | 13          |
| Governmental Funds Statement of Revenues, Expenditures, and Changes<br>in Fund Balances .....                                                      | 14          |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,<br>and Changes in Fund Balances to the Statement of Activities ..... | 15          |
| Proprietary Funds Statement of Net Assets .....                                                                                                    | 16          |
| Proprietary Funds Statement of Activities.....                                                                                                     | 17          |
| Proprietary Funds Statement of Cash Flows .....                                                                                                    | 18          |
| Statement of Fiduciary Assets and Liabilities.....                                                                                                 | 19          |
| Notes to the Basic Financial Statements .....                                                                                                      | 20 - 39     |
| <b>REQUIRED SUPPLEMENTARY INFORMATION:</b>                                                                                                         |             |
| Schedule of Revenue, Expenditures and Changes in Fund Balances -<br>Budget and Actual (GAAP) - General Fund .....                                  | 40          |
| Schedule of Revenue, Expenditures and Changes in Fund Balances -<br>Budget and Actual (GAAP) - Deferred Maintenance .....                          | 41          |
| <b>SUPPLEMENTARY INFORMATION:</b>                                                                                                                  |             |
| Combining Statements - Nonmajor Funds:                                                                                                             |             |
| Nonmajor Governmental Funds - Combining Balance Sheet.....                                                                                         | 42          |
| Nonmajor Governmental Funds - Combining Schedule of<br>Revenues, Expenditures and Changes in Fund Balances.....                                    | 43          |
| State and Federal Award Compliance Section:                                                                                                        |             |
| Organization .....                                                                                                                                 | 44          |
| Schedule of Average Daily Attendance.....                                                                                                          | 45          |
| Schedule of Instructional Time Offered .....                                                                                                       | 46          |
| Schedule of Charter Schools .....                                                                                                                  | 47          |
| Schedule of Financial Trends and Analysis .....                                                                                                    | 48          |
| Schedule of Expenditures Federal Awards.....                                                                                                       | 49          |

**Union School District**  
County of Santa Clara

Table of Contents

---

|                                                                                                       |         |
|-------------------------------------------------------------------------------------------------------|---------|
| Reconciliation of the Annual Financial Budget Report (SACS) to the Audited Financial Statements ..... | 50      |
| Schedule of Excess Sick Leave .....                                                                   | 51      |
| Notes to State and Federal Award Compliance Sections .....                                            | 52 - 53 |

**OTHER INDEPENDENT AUDITOR’S REPORTS:**

|                                                                                                                                                                                                                                 |         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 54 - 55 |
| 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 .....             | 56 - 57 |
| Independent Auditor’s Report on Compliance with Requirements that Could Have A Direct and Material Effect on State Programs .....                                                                                               | 58 - 59 |

**FINDINGS AND RECOMMENDATIONS:**

|                                                           |         |
|-----------------------------------------------------------|---------|
| Schedule of Findings and Questioned Costs .....           | 60 - 61 |
| Schedule of Prior Year Findings and Recommendations ..... | 62      |

FINANCIAL  
SECTION

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees  
Union School District  
San Jose, California

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, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12 (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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District at June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 42 through 43 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



**Chavan & Associates, LLP**  
Certified Public Accountants

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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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise District's basic financial statements. The combining and individual fund financial statements and other schedules 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 of the District. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

C & A LLP

November 9, 2012  
San Jose, California

*Management's Discussion and Analysis*

**Union School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012

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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, 2012. 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 2011-12 are as follows:

- Total net assets decreased by \$330,846, or 1.31%, from June 30, 2011 to June 30, 2012.
- General revenues accounted for \$41,536,525, or 88%, of all revenues.
- The District had \$47,446,080 in expenses offset by program specific revenues of \$5,578,709.
- Total fund balance in the governmental funds increased by \$1,724,322 or 8.25% from June 30, 2011 to June 30, 2012.
- 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 5.24%, from 4,772 to 5,022.
- The District's P-2 ADA increased from 4,652 ADA in fiscal year 2010-11 to 4,910 ADA in fiscal year 2011-12, an increase of 258 ADA or 5.55%.

**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 Assets 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, 2012

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**Overview of the Financial Statements**

**Government-wide Financial Statements - Statement of Net Assets 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 2011-12"? The Statement of Net Assets 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 assets and changes in those assets. This change in net assets 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 Assets 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 Assets 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, 2012

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**The Union School District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Table 1 provides a summary that compares the district's net assets in 2010-11 and 2011-12:

| <b>Table 1 - Summary of Statement of Net Assets</b> |                       |                       |                     |                   |
|-----------------------------------------------------|-----------------------|-----------------------|---------------------|-------------------|
|                                                     | 2012                  | 2011                  | Change              | Percentage Change |
| <b>Assets</b>                                       |                       |                       |                     |                   |
| Current and Other Assets                            | \$ 32,006,606         | \$ 30,850,255         | \$ 1,156,351        | 3.75%             |
| Capital Assets                                      | 108,891,514           | 110,579,829           | (1,688,315)         | -1.53%            |
| <b>Total Assets</b>                                 | <b>\$ 140,898,120</b> | <b>\$ 141,430,084</b> | <b>\$ (531,964)</b> | <b>-0.38%</b>     |
| <b>Liabilities</b>                                  |                       |                       |                     |                   |
| Current Liabilities                                 | \$ 3,336,262          | \$ 3,654,408          | \$ (318,146)        | -8.71%            |
| Long-term Liabilities                               | 112,564,561           | 112,447,533           | 117,028             | 0.10%             |
| <b>Total Liabilities</b>                            | <b>\$ 115,900,823</b> | <b>\$ 116,101,941</b> | <b>\$ (201,118)</b> | <b>-0.17%</b>     |
| <b>Net Assets</b>                                   |                       |                       |                     |                   |
| Invested in Capital Assets, Net of Debt             | \$ (2,338,145)        | \$ (938,923)          | \$ (1,399,222)      | 149.02%           |
| Restricted                                          | 15,772,019            | 14,328,516            | 1,443,503           | 10.07%            |
| Unrestricted                                        | 11,563,423            | 11,938,550            | (375,127)           | -3.14%            |
| <b>Total Net Assets</b>                             | <b>\$ 24,997,297</b>  | <b>\$ 25,328,143</b>  | <b>\$ (330,846)</b> | <b>-1.31%</b>     |

**Union School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012

Table 2 shows the changes in net assets for fiscal year 2010-11 and 2011-12.

| <b>Table 2 - Summary of Changes in Statement of Activities</b> |               |               |              |                      |
|----------------------------------------------------------------|---------------|---------------|--------------|----------------------|
|                                                                | 2012          | 2011          | Change       | Percentage<br>Change |
| <b>Revenues</b>                                                |               |               |              |                      |
| Program revenues                                               | \$ 5,578,709  | \$ 4,790,408  | \$ 788,301   | 16.46%               |
| General revenues:                                              |               |               |              |                      |
| Property taxes                                                 | 28,192,626    | 26,993,519    | 1,199,107    | 4.44%                |
| Parcel taxes                                                   | 1,308,384     | 1,307,328     | 1,056        | 0.08%                |
| Grants and entitlements - unrestricted                         | 6,891,021     | 6,850,945     | 40,076       | 0.58%                |
| Other                                                          | 5,144,494     | 5,510,987     | (366,493)    | -6.65%               |
| <b>Total Revenues</b>                                          | 47,115,234    | 45,453,187    | 1,662,047    | 3.66%                |
| <b>Program Expenses</b>                                        |               |               |              |                      |
| Instruction                                                    | 24,583,980    | 24,649,079    | (65,099)     | -0.26%               |
| Instruction-related services                                   | 4,762,326     | 4,601,331     | 160,995      | 3.50%                |
| Pupil services                                                 | 2,564,038     | 2,254,786     | 309,252      | 13.72%               |
| General administration                                         | 2,176,418     | 2,112,960     | 63,458       | 3.00%                |
| Plant services                                                 | 6,395,420     | 6,232,847     | 162,573      | 2.61%                |
| Other outgo                                                    | 1,991,884     | 1,788,803     | 203,081      | 11.35%               |
| Interest on long-term debt                                     | 4,972,014     | 7,388,952     | (2,416,938)  | -32.71%              |
| <b>Total Expenses</b>                                          | 47,446,080    | 49,028,758    | (1,582,678)  | -3.23%               |
| <b>Change in Net Assets</b>                                    | (330,846)     | (3,575,571)   | 3,244,725    | -90.75%              |
| <b>Beginning Net Assets</b>                                    | 25,328,143    | 28,756,804    | (3,428,661)  | -11.92%              |
| <b>Prior Period Adjustment</b>                                 | -             | 146,910       | (146,910)    | -100.00%             |
| <b>Ending Net Assets</b>                                       | \$ 24,997,297 | \$ 25,328,143 | \$ (330,846) | -1.31%               |

**Union School District**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012

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**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 2010-11 and 2011-12.

| <b>Table 3 - Net Cost of Services</b> |                      |                      |                       |                   |  |
|---------------------------------------|----------------------|----------------------|-----------------------|-------------------|--|
|                                       | 2012                 | 2011                 | Change                | Percentage Change |  |
| Instruction                           | \$ 21,818,307        | \$ 22,120,902        | \$ (302,595)          | -1.37%            |  |
| Instruction-related services          | 4,043,852            | 3,915,148            | 128,704               | 3.29%             |  |
| Pupil services                        | 1,559,575            | 1,185,477            | 374,098               | 31.56%            |  |
| General administration                | 2,139,821            | 2,025,665            | 114,156               | 5.64%             |  |
| Plant services                        | 6,394,215            | 6,227,527            | 166,688               | 2.68%             |  |
| Other outgo                           | 939,587              | 1,374,679            | (435,092)             | -31.65%           |  |
| Interest on long-term debt            | 4,972,014            | 7,388,952            | (2,416,938)           | -32.71%           |  |
| <b>Total Net Cost of Services</b>     | <b>\$ 41,867,371</b> | <b>\$ 44,238,350</b> | <b>\$ (2,370,979)</b> | <b>-5.36%</b>     |  |

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, 2012

**The Union School District's Funds**

The district's governmental funds reported a combined fund balance of \$29,927,763 which is \$1,614,171 more than last year's total of \$28,313,592. Table 4 provides an analysis of the fund balances and the total change in fund balances from the prior year.

|                                             | 2012                 | 2011                 | Change              | Percentage Change |
|---------------------------------------------|----------------------|----------------------|---------------------|-------------------|
| General                                     | \$ 3,575,356         | \$ 3,147,958         | \$ 427,398          | 13.58%            |
| Deferred Maintenance Fund                   | 2,451,588            | 2,539,939            | (88,351)            | -3.48%            |
| Building Fund                               | 9,789,087            | 8,487,003            | 1,302,084           | 15.34%            |
| Bond Interest and Redemption Fund           | 5,074,474            | 4,713,649            | 360,825             | 7.65%             |
| Nonmajor Governmental Funds                 | 20,841               | 298,475              | (277,634)           | -93.02%           |
| Internal Service Self Insurance Fund (OPEB) | 9,016,417            | 9,126,568            | (110,151)           | -1.21%            |
| <b>Total Fund Balances</b>                  | <b>\$ 29,927,763</b> | <b>\$ 28,313,592</b> | <b>\$ 1,614,171</b> | <b>5.70%</b>      |

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 2010-11 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 \$4,129,849, the actual results for the year showed net decrease of \$2,651,662. After transfers in and out netting \$3,079,060, the final actual change in the general fund's fund balance was \$427,398.

- Actual Expenditures were \$1.55M under budget due to unspent categorical programs at \$42,500 and \$1.427M for site and department carryover to 2012-13.

**Capital Assets**

Table 5 shows fiscal year 2011-12 balances compared to 2010-11.

|                                   | 2012                  | 2011                  | Change                | Percentage Change |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-------------------|
| Land                              | \$ 1,880,098          | \$ 1,880,098          | \$ -                  | 0.00%             |
| Work-in-Progress                  | 515,015               | 304,739               | 210,276               | 69.00%            |
| Site Improvements                 | 647,148               | 674,091               | (26,943)              | -4.00%            |
| Buildings and Improvements        | 104,666,860           | 106,382,410           | (1,715,550)           | -1.61%            |
| Furniture and Equipment           | 1,182,393             | 1,338,491             | (156,098)             | -11.66%           |
| <b>Total Capital Assets - Net</b> | <b>\$ 108,891,514</b> | <b>\$ 110,579,829</b> | <b>\$ (1,688,315)</b> | <b>-1.53%</b>     |

**Union School District**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2012

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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.

| <b>Table 6 - Summary of Long-term Liabilities</b> |                       |                       |                   |                   |
|---------------------------------------------------|-----------------------|-----------------------|-------------------|-------------------|
|                                                   | 2012                  | 2011                  | Change            | Percentage Change |
| General Obligation Bonds                          | \$ 111,229,659        | \$ 111,518,752        | \$ (289,093)      | -0.26%            |
| Annual Net OPEB Obligation                        | 1,263,881             | 864,488               | 399,393           | 46.20%            |
| Compensated Absences                              | 71,021                | 64,293                | 6,728             | 10.46%            |
| <b>Total Long-term Liabilities</b>                | <b>\$ 112,564,561</b> | <b>\$ 112,447,533</b> | <b>\$ 117,028</b> | <b>0.10%</b>      |

**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. The District is projecting an enrollment increase of 494 students in the next five years due to high student academic performance aided by exemplary programs, teachers and staff. The 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. The financial well-being of the District is tied in large part to the State funding formula. Furthermore, the State's current year budget does not fully address its budget problem. With the passage of Prop.30, the District is able to maintain the funding level from 2010-11 without further reduction to Revenue Limit. Furthermore, funding resources need to be located to cover step and column increases as well as inflation costs for supplies and services.

**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.

***Basic Financial Statements***

**Union School District**  
**Statement of Net Assets**  
June 30, 2012

|                                                 | Governmental<br>Activities |
|-------------------------------------------------|----------------------------|
| <b>Assets</b>                                   |                            |
| Current assets:                                 |                            |
| Cash and investments                            | \$ 27,876,026              |
| Accounts receivable                             | 4,109,739                  |
| Stores inventories                              | 20,841                     |
| Total current assets                            | 32,006,606                 |
| Noncurrent assets:                              |                            |
| Non-depreciable capital assets                  | 2,395,113                  |
| Capital assets, net of depreciation             | 106,496,401                |
| Total noncurrent assets                         | 108,891,514                |
| Total Assets                                    | \$ 140,898,120             |
| <b>Liabilities</b>                              |                            |
| Current liabilities:                            |                            |
| Accounts payable                                | \$ 1,478,498               |
| Deferred revenue                                | 600,345                    |
| Accrued interest                                | 1,257,419                  |
| Total current liabilities                       | 3,336,262                  |
| Long-term liabilities:                          |                            |
| Due within one year                             | 2,823,084                  |
| Due after one year                              | 109,741,477                |
| Total long-term liabilities                     | 112,564,561                |
| Total Liabilities                               | \$ 115,900,823             |
| <b>Net Assets</b>                               |                            |
| Invested in capital assets, net of related debt | \$ (2,338,145)             |
| Restricted for:                                 |                            |
| Educational programs                            | 908,458                    |
| Debt service                                    | 5,074,474                  |
| Capital projects                                | 9,789,087                  |
| Total restricted                                | 15,772,019                 |
| Unrestricted                                    | 11,563,423                 |
| Total Net Assets                                | \$ 24,997,297              |

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, 2012

|                                                           | Expenses             | Program Revenues        |                                          | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |
|-----------------------------------------------------------|----------------------|-------------------------|------------------------------------------|----------------------------------------------------------|
|                                                           |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions |                                                          |
| Governmental activities:                                  |                      |                         |                                          |                                                          |
| Instruction                                               | \$ 24,583,980        | \$ -                    | \$ 2,765,673                             | \$ (21,818,307)                                          |
| Instruction-related services:                             |                      |                         |                                          |                                                          |
| Supervision of instruction                                | 1,196,059            | -                       | 669,728                                  | (526,331)                                                |
| Instruction library, media and technology                 | 1,149,369            | -                       | 25,682                                   | (1,123,687)                                              |
| School site administration                                | 2,416,898            | -                       | 23,064                                   | (2,393,834)                                              |
| Pupil services:                                           |                      |                         |                                          |                                                          |
| Home-to-school transportation                             | 226,968              | 7,523                   | 5,669                                    | (213,776)                                                |
| Food services                                             | 904,775              | 474,640                 | 364,611                                  | (65,524)                                                 |
| All other pupil services                                  | 1,432,295            | -                       | 152,020                                  | (1,280,275)                                              |
| General administration:                                   |                      |                         |                                          |                                                          |
| Data processing                                           | 16,063               | -                       | -                                        | (16,063)                                                 |
| All other general administration                          | 2,160,355            | -                       | 36,597                                   | (2,123,758)                                              |
| Plant services                                            | 6,395,420            | -                       | 1,205                                    | (6,394,215)                                              |
| Facilities acquisition and construction                   | -                    | -                       | -                                        | -                                                        |
| Ancillary services                                        | 84,455               | -                       | 10,555                                   | (73,900)                                                 |
| Enterprise Services                                       | 55,779               | -                       | -                                        | (55,779)                                                 |
| Transfers to other agencies                               | 1,851,650            | 20,372                  | 1,021,370                                | (809,908)                                                |
| Interest on long-term debt                                | 4,972,014            | -                       | -                                        | (4,972,014)                                              |
| Total governmental activities                             | <u>\$ 47,446,080</u> | <u>\$ 502,535</u>       | <u>\$ 5,076,174</u>                      | <u>(41,867,371)</u>                                      |
| General revenues:                                         |                      |                         |                                          |                                                          |
| Taxes and subventions:                                    |                      |                         |                                          |                                                          |
| Taxes levied for general purposes                         |                      |                         |                                          | 22,770,634                                               |
| Taxes levied for debt service                             |                      |                         |                                          | 5,421,992                                                |
| Taxes levied for other specific purposes                  |                      |                         |                                          | 1,308,384                                                |
| Federal and state aid not restricted to specific purposes |                      |                         |                                          | 6,891,021                                                |
| Interest and investment earnings                          |                      |                         |                                          | 217,670                                                  |
| Miscellaneous                                             |                      |                         |                                          | 4,933,014                                                |
| Special item - loss on disposal of capital assets         |                      |                         |                                          | (6,190)                                                  |
| Total general revenues and special items                  |                      |                         |                                          | <u>41,536,525</u>                                        |
| Change in net assets                                      |                      |                         |                                          | (330,846)                                                |
| Net assets beginning                                      |                      |                         |                                          | <u>25,328,143</u>                                        |
| Net assets ending                                         |                      |                         |                                          | <u>\$ 24,997,297</u>                                     |

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

**Union School District**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

|                                            | General<br>Fund     | Deferred<br>Maintenance<br>Fund | Building<br>Fund     | Bond Interest<br>and<br>Redemption<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------------|---------------------|---------------------------------|----------------------|--------------------------------------------|--------------------------------------------|--------------------------------|
| <b>Assets</b>                              |                     |                                 |                      |                                            |                                            |                                |
| Cash and investments                       | \$ 1,300,847        | \$ 2,165,959                    | \$ 10,208,194        | \$ 5,070,132                               | \$ 124,916                                 | \$ 18,870,048                  |
| Accounts receivable                        | 4,015,876           | 3,388                           | 16,746               | 4,342                                      | 55,291                                     | 4,095,643                      |
| Due from other funds                       | 133,403             | 448,460                         | 403,651              | -                                          | -                                          | 985,514                        |
| Stores inventories                         | -                   | -                               | -                    | -                                          | 20,841                                     | 20,841                         |
| <b>Total Assets</b>                        | <b>\$ 5,450,126</b> | <b>\$ 2,617,807</b>             | <b>\$ 10,628,591</b> | <b>\$ 5,074,474</b>                        | <b>\$ 201,048</b>                          | <b>\$ 23,972,046</b>           |
| <b>Liabilities and Fund Balances</b>       |                     |                                 |                      |                                            |                                            |                                |
| <b>Liabilities:</b>                        |                     |                                 |                      |                                            |                                            |                                |
| Accounts payable                           | \$ 1,061,748        | \$ 166,219                      | \$ 222,847           | \$ -                                       | \$ 27,684                                  | \$ 1,478,498                   |
| Due to other funds                         | 809,673             | -                               | 19,661               | -                                          | 152,523                                    | 981,857                        |
| Deferred revenue                           | 3,349               | -                               | 596,996              | -                                          | -                                          | 600,345                        |
| <b>Total Liabilities</b>                   | <b>1,874,770</b>    | <b>166,219</b>                  | <b>839,504</b>       | <b>-</b>                                   | <b>180,207</b>                             | <b>3,060,700</b>               |
| <b>Fund balances:</b>                      |                     |                                 |                      |                                            |                                            |                                |
| <b>Nonspendable:</b>                       |                     |                                 |                      |                                            |                                            |                                |
| Revolving fund                             | 5,000               | -                               | -                    | -                                          | -                                          | 5,000                          |
| Stores inventories                         | -                   | -                               | -                    | -                                          | 20,841                                     | 20,841                         |
| <b>Restricted for:</b>                     |                     |                                 |                      |                                            |                                            |                                |
| Educational programs                       | 908,458             | -                               | -                    | -                                          | -                                          | 908,458                        |
| Debt service                               | -                   | -                               | -                    | 5,074,474                                  | -                                          | 5,074,474                      |
| <b>Assigned for:</b>                       |                     |                                 |                      |                                            |                                            |                                |
| Sites and programs                         | 336,199             | -                               | -                    | -                                          | -                                          | 336,199                        |
| Technology                                 | 723,724             | -                               | -                    | -                                          | -                                          | 723,724                        |
| Parcel tax                                 | 68,937              | -                               | -                    | -                                          | -                                          | 68,937                         |
| Textbook adoption                          | 367,925             | -                               | -                    | -                                          | -                                          | 367,925                        |
| Deferred maintenance five year plan        | -                   | 2,451,588                       | -                    | -                                          | -                                          | 2,451,588                      |
| Capital projects                           | -                   | -                               | 9,789,087            | -                                          | -                                          | 9,789,087                      |
| <b>Unassigned:</b>                         |                     |                                 |                      |                                            |                                            |                                |
| Economic uncertainties                     | 1,165,113           | -                               | -                    | -                                          | -                                          | 1,165,113                      |
| <b>Total Fund Balances</b>                 | <b>3,575,356</b>    | <b>2,451,588</b>                | <b>9,789,087</b>     | <b>5,074,474</b>                           | <b>20,841</b>                              | <b>20,911,346</b>              |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 5,450,126</b> | <b>\$ 2,617,807</b>             | <b>\$ 10,628,591</b> | <b>\$ 5,074,474</b>                        | <b>\$ 201,048</b>                          | <b>\$ 23,972,046</b>           |

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 Assets  
 June 30, 2012

---

Total fund balances - governmental funds \$ 20,911,346

Amounts reported in the Statement of Net Assets 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   | \$ 140,004,285      |             |
| Accumulated depreciation | <u>(31,112,771)</u> | 108,891,514 |

Interest payable on long-term debt does not require the use of current financial resources and, therefore, are not reported in the governmental funds. (1,257,419)

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. 9,016,417

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        | \$ 111,229,659 |                      |
| Annual net OPEB obligation      | 1,263,881      |                      |
| Compensated absences (vacation) | <u>71,021</u>  | <u>(112,564,561)</u> |

Total net assets - governmental activities \$ 24,997,297

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, 2012**

|                                                                      | General<br>Fund     | Deferred<br>Maintenance<br>Fund | Building<br>Fund    | Bond Interest<br>and<br>Redemption<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------------------------------------------------|---------------------|---------------------------------|---------------------|--------------------------------------------|--------------------------------------------|--------------------------------|
| <b>Revenues:</b>                                                     |                     |                                 |                     |                                            |                                            |                                |
| Revenue limit sources                                                | \$ 25,946,079       | \$ -                            | \$ -                | \$ -                                       | \$ -                                       | \$ 25,946,079                  |
| Federal revenue                                                      | 2,200,513           | -                               | -                   | -                                          | 336,160                                    | 2,536,673                      |
| Other state                                                          | 4,353,388           | -                               | -                   | 55,000                                     | 27,919                                     | 4,436,307                      |
| Other local                                                          | 3,399,554           | 14,470                          | 4,765,045           | 5,381,758                                  | 533,230                                    | 14,094,057                     |
| <b>Total revenues</b>                                                | <b>35,899,534</b>   | <b>14,470</b>                   | <b>4,765,045</b>    | <b>5,436,758</b>                           | <b>897,309</b>                             | <b>47,013,116</b>              |
| <b>Expenditures:</b>                                                 |                     |                                 |                     |                                            |                                            |                                |
| <b>Current</b>                                                       |                     |                                 |                     |                                            |                                            |                                |
| Instruction                                                          | 24,132,484          | -                               | -                   | -                                          | -                                          | 24,132,484                     |
| <b>Instruction-related services:</b>                                 |                     |                                 |                     |                                            |                                            |                                |
| Supervision of instruction                                           | 1,195,109           | -                               | -                   | -                                          | -                                          | 1,195,109                      |
| Instruction library, media and technology                            | 1,101,157           | -                               | -                   | -                                          | -                                          | 1,101,157                      |
| School site administration                                           | 2,416,898           | -                               | -                   | -                                          | -                                          | 2,416,898                      |
| <b>Pupil services:</b>                                               |                     |                                 |                     |                                            |                                            |                                |
| Home-to-school transportation                                        | 226,968             | -                               | -                   | -                                          | -                                          | 226,968                        |
| Food services                                                        | -                   | -                               | -                   | -                                          | 904,775                                    | 904,775                        |
| All other pupil services                                             | 1,432,295           | -                               | -                   | -                                          | -                                          | 1,432,295                      |
| <b>General administration:</b>                                       |                     |                                 |                     |                                            |                                            |                                |
| Data processing                                                      | 16,063              | -                               | -                   | -                                          | -                                          | 16,063                         |
| All other general administration                                     | 2,153,258           | -                               | -                   | -                                          | 850                                        | 2,154,108                      |
| Plant services                                                       | 3,534,159           | -                               | 75,857              | -                                          | -                                          | 3,610,016                      |
| Facilities acquisition and construction                              | 350,921             | 258,849                         | 256,165             | -                                          | 338,128                                    | 1,204,063                      |
| Ancillary services                                                   | 84,455              | -                               | -                   | -                                          | -                                          | 84,455                         |
| Enterprise Services                                                  | 55,779              | -                               | -                   | -                                          | -                                          | 55,779                         |
| Transfers to other agencies                                          | 1,851,650           | -                               | -                   | -                                          | -                                          | 1,851,650                      |
| <b>Debt service:</b>                                                 |                     |                                 |                     |                                            |                                            |                                |
| Principal                                                            | -                   | -                               | -                   | 2,637,482                                  | -                                          | 2,637,482                      |
| Interest and fees                                                    | -                   | -                               | -                   | 2,438,451                                  | -                                          | 2,438,451                      |
| <b>Total expenditures</b>                                            | <b>38,551,196</b>   | <b>258,849</b>                  | <b>332,022</b>      | <b>5,075,933</b>                           | <b>1,243,753</b>                           | <b>45,461,753</b>              |
| <b>Excess (deficiency) of revenues<br/>over (under) expenditures</b> | <b>(2,651,662)</b>  | <b>(244,379)</b>                | <b>4,433,023</b>    | <b>360,825</b>                             | <b>(346,444)</b>                           | <b>1,551,363</b>               |
| <b>Other financing sources (uses):</b>                               |                     |                                 |                     |                                            |                                            |                                |
| Transfers in                                                         | 3,364,899           | 156,028                         | -                   | -                                          | 68,810                                     | 3,589,737                      |
| Transfers out                                                        | (285,839)           | -                               | (3,130,939)         | -                                          | -                                          | (3,416,778)                    |
| <b>Total other financing sources (uses)</b>                          | <b>3,079,060</b>    | <b>156,028</b>                  | <b>(3,130,939)</b>  | <b>-</b>                                   | <b>68,810</b>                              | <b>172,959</b>                 |
| <b>Net changes in fund balances</b>                                  | <b>427,398</b>      | <b>(88,351)</b>                 | <b>1,302,084</b>    | <b>360,825</b>                             | <b>(277,634)</b>                           | <b>1,724,322</b>               |
| <b>Fund balances beginning</b>                                       | <b>3,147,958</b>    | <b>2,539,939</b>                | <b>8,487,003</b>    | <b>4,713,649</b>                           | <b>298,475</b>                             | <b>19,187,024</b>              |
| <b>Fund balances ending</b>                                          | <b>\$ 3,575,356</b> | <b>\$ 2,451,588</b>             | <b>\$ 9,789,087</b> | <b>\$ 5,074,474</b>                        | <b>\$ 20,841</b>                           | <b>\$ 20,911,346</b>           |

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, 2012

|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    |                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|
| Total net change in fund balances - governmental funds                                                                                                                                                                                                                                                                                                                                                                       | \$                 | 1,724,322        |
| <p>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.</p>                                                                                                                                                                                                         |                    |                  |
| Expenditures for capital assets                                                                                                                                                                                                                                                                                                                                                                                              | \$                 | 1,242,473        |
| Depreciation expense                                                                                                                                                                                                                                                                                                                                                                                                         | <u>(2,924,598)</u> | (1,682,125)      |
| <p>Governmental funds do not report gains and losses on disposal of capital assets. However, in the government-wide Statement of Activities, the cost of disposal of capital assets net any proceeds is accounted for as a special item.</p>                                                                                                                                                                                 |                    |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    | (6,190)          |
| <p>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:</p>                                                                                 |                    |                  |
| Repayment of bond principal                                                                                                                                                                                                                                                                                                                                                                                                  |                    | 2,637,482        |
| <p>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 assets:</p>                                                                                                                                                      |                    |                  |
| Amortization of bond premiums                                                                                                                                                                                                                                                                                                                                                                                                |                    | 45,500           |
| <p>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.</p>                                                                                                      |                    |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    | (6,728)          |
| <p>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:</p> |                    |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    | (399,393)        |
| <p>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.</p>                                                                                                                                                                                                       |                    |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    | (110,151)        |
| <p>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.</p>                                                                                                                                                                                                           |                    |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    | (2,393,889)      |
| <p>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.</p>                            |                    |                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                              |                    | <u>(139,674)</u> |
| Changes in net assets of governmental activities                                                                                                                                                                                                                                                                                                                                                                             | <u>\$</u>          | <u>(330,846)</u> |

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

**Union School District**  
Proprietary Funds  
Statement of Net Assets  
June 30, 2012

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|                        | Internal Service<br>Self Insurance<br>Fund<br>(OPEB) |
|------------------------|------------------------------------------------------|
| <b>Assets</b>          |                                                      |
| Cash and investments   | \$ 9,005,978                                         |
| Accounts receivable    | 14,096                                               |
| Due from other funds   | <u>61,001</u>                                        |
| Total Assets           | <u><u>\$ 9,081,075</u></u>                           |
| <b>Liabilities</b>     |                                                      |
| Long-Term Liabilities: |                                                      |
| Due to other funds     | <u>\$ 64,658</u>                                     |
| Total Liabilities      | <u><u>\$ 64,658</u></u>                              |
| <b>Net Assets</b>      |                                                      |
| Unrestricted           | <u>\$ 9,016,417</u>                                  |
| Total Net Assets       | <u><u>\$ 9,016,417</u></u>                           |

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, 2012

---

|                                          | Internal Service<br>Self Insurance<br>Fund<br>(OPEB) |
|------------------------------------------|------------------------------------------------------|
|                                          |                                                      |
| <b>Operating Revenues</b>                | \$ 169,301                                           |
| <b>Operating Expenses</b>                | 171,152                                              |
| Operating Income (Loss)                  | (1,851)                                              |
| <b>Nonoperating Revenues (Expenses):</b> |                                                      |
| Interest income                          | 64,658                                               |
| Income Before Transfers                  | 62,807                                               |
| Transfers from Other Funds               | 61,001                                               |
| Transfers to Other Funds                 | (233,959)                                            |
| Change in Net Assets                     | (110,151)                                            |
| Beginning Net Assets                     | 9,126,568                                            |
| Ending Net Assets                        | \$ 9,016,417                                         |

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

**Union School District**  
Proprietary Funds  
Statement of Cash Flows  
June 30, 2012

---

|                                                                   | Internal Service<br>Self Insurance<br>Fund<br>(OPEB) |
|-------------------------------------------------------------------|------------------------------------------------------|
| <b>Cash Flows from Operating Activities</b>                       |                                                      |
| Cash received from in-district premiums contributions             | \$ 169,301                                           |
| Cash paid for premiums and benefits                               | (171,152)                                            |
| Net cash used for operating activities                            | (1,851)                                              |
| <b>Cash Flows from Noncapital Financing Activities</b>            |                                                      |
| Transfers to Other Funds                                          | (413,440)                                            |
| <b>Cash Flows from Investing Activities</b>                       |                                                      |
| Interest income                                                   | 66,768                                               |
| Increase (decrease) in Cash and Cash Equivalents                  | (348,523)                                            |
| Cash and Cash Equivalents - Beginning                             | 9,354,501                                            |
| Cash and Cash Equivalents - Ending                                | \$ 9,005,978                                         |
| <b>Reconciliation of Operating Income to Net Cash Provided by</b> |                                                      |
| <b>Operating Activities:</b>                                      |                                                      |
| Operating income                                                  | \$ (1,851)                                           |
| Adjustments                                                       | -                                                    |
| Net cash provided by operating activities                         | (1,851)                                              |

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

**Union School District**  
Fiduciary Funds  
Statement of Fiduciary Net Assets and Liabilities  
June 30, 2012

---

|                                   | Student Body<br>Agency Fund<br>Total |
|-----------------------------------|--------------------------------------|
| <b>Assets</b>                     |                                      |
| Cash on hand and in banks         | <u>\$ 189,066</u>                    |
| Total Assets                      | <u><u>\$ 189,066</u></u>             |
| <b>Liabilities and Net Assets</b> |                                      |
| Due to student groups             | <u>\$ 189,066</u>                    |
| Total Liabilities and Net Assets  | <u><u>\$ 189,066</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, 2012

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**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 assets 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 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, 2012

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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 and current liabilities 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.

**Unearned/Deferred revenue:**

Unearned/Deferred 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 revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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revenue. Security deposits for leased facilities are recorded as unearned in the government-wide statements and deferred 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, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. The 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, non-major, proprietary 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.

**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.

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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- 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.

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.

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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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                             |

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

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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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) Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred and timing requirements have been met. Unearned revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures. Deferred revenue in the funds is recorded for grant and entitlement receivables that are not available within ninety days of year end and for cash receipts from grants and entitlements for which the District has not met the eligibility requirements for recognizing revenue. Security deposits for leased facilities are recorded as unearned in the government-wide statements and deferred in the fund statements.

e) 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 assets. 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

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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year-end that have not yet been paid with expendable available financial resources. These amounts 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.

f) 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 Assets. 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.

g) 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, 2012

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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.

h) Net Assets

Net asset represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt 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. Net assets are reported as restricted when there are limitations imposed on their 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 assets are 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 assets* reflect net assets 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.

i) 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.

j) 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 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

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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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.

k) 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.

l) 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.

m) 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.

I. New Accounting Pronouncements

**Summary of Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 5 (Issued 06/11).** The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement were implemented as of June 30, 2012 and did **not** have a significant impact on the District's financial statements.

J. Upcoming Accounting and Reporting Changes

**Summary of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (Issued 12/10).** The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the District's financial statements.

**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 assets by the government that is applicable to a future reporting period, and an acquisition of net assets 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 are effective for financial statements for periods beginning after December 15, 2011. The implementation of this standard will **not** have a significant impact on the District's financial statements.

**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

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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statements for periods beginning after December 15, 2012. Earlier application is encouraged. The implementation of this standard will **not** have a significant impact on the District's financial statements.

**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 District's 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 District'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, 2012

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**2. CASH AND INVESTMENTS**

A summary of cash and investments as of June 30, 2012 is as follows:

| Deposit or Investment                             | Carrying Amount      | Fair Value           | Investment Rating |
|---------------------------------------------------|----------------------|----------------------|-------------------|
| <i>Government-Wide Statements:</i>                |                      |                      |                   |
| Cash in county treasury investment pool           | \$ 27,860,778        | \$ 27,843,753        | AA                |
| Cash in banks                                     | 10,248               | 10,248               | n/a               |
| Cash in revolving fund                            | 5,000                | 5,000                | n/a               |
| <b>Total Government-Wide Cash and Investments</b> | <b>27,876,026</b>    | <b>27,859,001</b>    |                   |
| <i>Fiduciary Funds:</i>                           |                      |                      |                   |
| Cash in banks                                     | 189,066              | 189,066              | n/a               |
| <b>Total Cash and Investments</b>                 | <b>\$ 28,065,092</b> | <b>\$ 28,048,067</b> |                   |

*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, 2012, the bank balance of the District's accounts with banks was \$210,698, 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

**Union School District**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2012**

has a fair value of approximately \$3.85 billion and an amortized book value of \$3.83 billion. The average maturity of the pool was 472 days and holds no derivative products.

*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, 2012:

| Receivables                      | General Fund        | Deferred Maintenance Fund | Building Fund    | Bond Interest   |                       |                  | Nonmajor Funds | Total               |
|----------------------------------|---------------------|---------------------------|------------------|-----------------|-----------------------|------------------|----------------|---------------------|
|                                  |                     |                           |                  | Redemption Fund | Internal Service Fund |                  |                |                     |
| <b>Federal Government:</b>       |                     |                           |                  |                 |                       |                  |                |                     |
| ARRA Education Jobs Fund         | \$ 116,623          | \$ -                      | \$ -             | \$ -            | \$ -                  | \$ -             | \$ -           | \$ 116,623          |
| Special Education                | 201,765             | -                         | -                | -               | -                     | -                | -              | 201,765             |
| Other Federal Resources          | 62,387              | -                         | -                | -               | -                     | -                | -              | 62,387              |
| <b>State Government</b>          |                     |                           |                  |                 |                       |                  |                |                     |
| Lottery                          | 360,402             | -                         | -                | -               | -                     | -                | -              | 360,402             |
| Class Size Reduction             | 738,133             | -                         | -                | -               | -                     | -                | -              | 738,133             |
| Special Education                | 426,958             | -                         | -                | -               | -                     | -                | -              | 426,958             |
| Transportation                   | 200,844             | -                         | -                | -               | -                     | -                | -              | 200,844             |
| Child Nutrition                  | -                   | -                         | -                | -               | -                     | 55,139           | -              | 55,139              |
| Other Resources                  | 1,908,764           | 3,388                     | 16,746           | 4,342           | 14,096                | 152              | -              | 1,947,488           |
| <b>Total Receivables</b>         | <b>4,015,876</b>    | <b>3,388</b>              | <b>16,746</b>    | <b>4,342</b>    | <b>14,096</b>         | <b>55,291</b>    | <b>-</b>       | <b>4,109,739</b>    |
| Less: Due from Other Governments | 2,307,098           | -                         | -                | -               | -                     | -                | -              | 2,307,098           |
| <b>Total Accounts Receivable</b> | <b>\$ 1,708,778</b> | <b>\$ 3,388</b>           | <b>\$ 16,746</b> | <b>\$ 4,342</b> | <b>\$ 14,096</b>      | <b>\$ 55,291</b> | <b>\$ -</b>    | <b>\$ 1,802,641</b> |

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

**4. CAPITAL ASSETS AND DEPRECIATION**

Capital asset activities for the year ended June 30, 2012 were as follows:

| Capital Assets                                 | Balance               |                       |                   | Balance<br>June 30, 2012 |
|------------------------------------------------|-----------------------|-----------------------|-------------------|--------------------------|
|                                                | July 01, 2011         | Additions             | Deletions         |                          |
| Land - not depreciable                         | \$ 1,880,098          | \$ -                  | \$ -              | \$ 1,880,098             |
| Work-in-progress - not depreciable             | 304,739               | 515,015               | 304,739           | 515,015                  |
| Site improvements                              | 823,836               | 13,881                | -                 | 837,717                  |
| Buildings and improvements                     | 133,461,563           | 1,005,935             | -                 | 134,467,498              |
| Furniture and equipment                        | 2,386,786             | 12,381                | 95,210            | 2,303,957                |
| <b>Total capital assets</b>                    | <b>138,857,022</b>    | <b>1,547,212</b>      | <b>399,949</b>    | <b>140,004,285</b>       |
| Less accumulated depreciation for:             |                       |                       |                   |                          |
| Site improvements                              | 149,745               | 40,824                | -                 | 190,569                  |
| Buildings and improvements                     | 27,079,153            | 2,721,485             | -                 | 29,800,638               |
| Furniture and equipment                        | 1,048,295             | 162,289               | 89,020            | 1,121,564                |
| <b>Total accumulated depreciation</b>          | <b>28,277,193</b>     | <b>2,924,598</b>      | <b>89,020</b>     | <b>31,112,771</b>        |
| <b>Total capital assets - net depreciation</b> | <b>\$ 110,579,829</b> | <b>\$ (1,377,386)</b> | <b>\$ 310,929</b> | <b>\$ 108,891,514</b>    |

Depreciation expense was charged to governmental activities as follows:

| Depreciation expense was charged to governmental activities as follows: |                     |
|-------------------------------------------------------------------------|---------------------|
| Instruction                                                             | \$ 83,785           |
| Supervision of instruction                                              | 950                 |
| Instruction library, media and technology                               | 48,212              |
| All other general administration                                        | 6,247               |
| Plant services                                                          | 2,785,404           |
| <b>Total depreciation expense</b>                                       | <b>\$ 2,924,598</b> |

**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, 2012:

| Due From (Receivable In)             | Due To (Payable In) |                  |                   |                                      |                     |
|--------------------------------------|---------------------|------------------|-------------------|--------------------------------------|---------------------|
|                                      | General Fund        | Building Fund    | Nonmajor Funds    | Internal Service Self-Insurance Fund | Total Due To        |
| General Fund                         | \$ -                | \$ 19,661        | \$ 49,084         | \$ 64,658                            | \$ 133,403          |
| Deferred Maintenance Fund            | 345,021             | -                | 103,439           | -                                    | 448,460             |
| Building Fund                        | 403,651             | -                | -                 | -                                    | 403,651             |
| Internal Service Self-Insurance Fund | 61,001              | -                | -                 | -                                    | 61,001              |
| <b>Total Due From</b>                | <b>\$ 809,673</b>   | <b>\$ 19,661</b> | <b>\$ 152,523</b> | <b>\$ 64,658</b>                     | <b>\$ 1,046,515</b> |

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

Interfund transfers consisted of the following for the fiscal year ended June 30, 2012:

| Fund Receiving Transfers  | Fund Making Transfers | Amount              |
|---------------------------|-----------------------|---------------------|
| General Fund              | Self Insurance Fund   | \$ 233,960 <b>1</b> |
| General Fund              | Building Fund         | 3,130,939 <b>2</b>  |
| Cafeteria Fund            | General Fund          | 68,810 <b>3</b>     |
| Deferred Maintenance Fund | General Fund          | 156,028 <b>4</b>    |
| Self Insurance Fund       | General Fund          | 61,001 <b>5</b>     |
|                           |                       | <u>\$ 3,650,738</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 2011-12 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, 2012, is shown below:

| Long-term Debt              | Balance               |                     |                     | Balance<br>June 30, 2012 | Due Within<br>One Year |
|-----------------------------|-----------------------|---------------------|---------------------|--------------------------|------------------------|
|                             | July 01, 2011         | Additions           | Deletions           |                          |                        |
| General Obligation Bonds    | \$ 111,518,752        | \$ 3,851,408        | \$ 4,140,501        | \$ 111,229,659           | \$ 2,823,084           |
| Annual Net OPEB Obligation  | 864,488               | 566,648             | 167,255             | 1,263,881                | -                      |
| Compensated Absences        | 64,293                | 117,498             | 110,770             | 71,021                   | -                      |
| <b>Total Long-term Debt</b> | <b>\$ 112,447,533</b> | <b>\$ 4,535,554</b> | <b>\$ 4,418,526</b> | <b>\$ 112,564,561</b>    | <b>\$ 2,823,084</b>    |

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, 2012:

| Bond                                  | Issue<br>Date | Maturity<br>Date | Interest<br>Rate | Original<br>Issue     | Bonds                        |                           | Bonds                |                              |
|---------------------------------------|---------------|------------------|------------------|-----------------------|------------------------------|---------------------------|----------------------|------------------------------|
|                                       |               |                  |                  |                       | Outstanding<br>July 01, 2011 | Additions/<br>Adjustments | Issued<br>(Redeemed) | Outstanding<br>June 30, 2012 |
| 1999 GOB, Series A                    | 1999          | 2025             | 5.1-6.2%         | \$ 38,902,591         | \$ 21,919,331                | \$ -                      | \$(1,622,483)        | \$ 20,296,848                |
| 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            | 11,708,877                   | -                         | (110,000)            | 11,598,877                   |
| GOB, Series D                         | 2004          | 2021             | 2.0-4.8%         | 20,240,000            | 17,175,000                   | -                         | (870,000)            | 16,305,000                   |
| 1999 GOB, Series D                    | 2005          | 2031             | 3.25-5.29%       | 11,616,142            | 11,506,142                   | -                         | (35,000)             | 11,471,142                   |
| Subtotal General Obligation Bonds     |               |                  |                  | 112,238,782           | 72,645,522                   | -                         | (2,637,483)          | 70,008,039                   |
| Bond Premiums                         |               |                  |                  | 1,137,744             | 864,744                      | -                         | (45,500)             | 819,244                      |
| Accreted Interest                     |               |                  |                  | -                     | 38,008,486                   | 3,851,408                 | (1,457,518)          | 40,402,376                   |
| <b>Total General Obligation Bonds</b> |               |                  |                  | <b>\$ 113,376,526</b> | <b>\$ 111,518,752</b>        | <b>\$ 3,851,408</b>       | <b>\$(4,140,501)</b> | <b>\$ 111,229,659</b>        |

The Union School District General Obligation Bonds, Election of 1999, Series A (the "Series A Bonds"), in

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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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 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.

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                 |
|---------------------------|----------------------|-----------------------|-----------------------|
| 2013                      | \$ 2,823,084         | \$ 2,623,792          | \$ 5,446,876          |
| 2014                      | 3,008,250            | 2,812,976             | 5,821,226             |
| 2015                      | 3,207,286            | 3,015,165             | 6,222,451             |
| 2016                      | 3,445,402            | 3,205,687             | 6,651,089             |
| 2017                      | 3,696,363            | 3,410,925             | 7,107,288             |
| 2018-2022                 | 21,240,341           | 22,324,478            | 43,564,819            |
| 2023-2027                 | 15,872,651           | 44,879,080            | 60,751,731            |
| 2028-2032                 | 16,714,662           | 42,070,337            | 58,784,999            |
| <b>Total Debt Service</b> | <b>\$ 70,008,039</b> | <b>\$ 124,342,440</b> | <b>\$ 194,350,479</b> |

**7. COMMITMENTS AND CONTINGENCIES**

*Litigation*

The District is involved in various litigation s 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, 2012.

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of services expected by the State constituency. During the past few years, the State of California has been reducing the amount of State funding allocated to school districts and/or deferring a portion of the State funding to the subsequent year. This has created significant cash flow management issues for the districts, in addition to requiring substantial budget reductions, which ultimately impacts the ability of California school districts to meet their goals for educational services.

**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        |            | SELF          |             |
|------------------------------|---------------|------------|---------------|-------------|
|                              | June 30, 2011 |            | June 30, 2011 |             |
| Total Assets                 | \$            | 16,586,785 | \$            | 195,379,000 |
| Total Liabilities            |               | 6,933,969  |               | 160,463,000 |
| Total Equity                 |               | 9,652,816  |               | 34,916,000  |
| Total Revenues               |               | 32,270,130 |               | 19,340,000  |
| Total Expenditures           |               | 34,251,818 |               | 30,377,000  |

**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 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.

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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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, 2012, 2011, and 2010 were \$1,573,186, \$1,588,264, and \$1,566,676, 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 7.0% 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 PERS Board of Administration. The required employer contribution rate for fiscal year 2012 was 10.923% 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, 2012, 2011, and 2010 were \$390,397, \$393,661, and \$296,793, 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 years District service, \$292 for 20-29 years District service, and \$334 for at least 30 years District service.

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.

**Union School District**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2012

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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.

|                                   |             |
|-----------------------------------|-------------|
| • PERS Choice PPO (employee only) | \$ 574.15   |
| • PERS Choice PPO (two party)     | \$ 1,148.30 |
| • PERS Choice PPO (family)        | \$ 1,492.79 |

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 \$31.50 in 2010, \$37.80 in 2011 and \$44.80 in 2012. 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               | \$ 584,757   |
| Interest on net OPEB obligation            | 34,108       |
| Adjustment to annual required contribution | (52,217)     |
| Annual OPEB cost (expense)                 | 566,648      |
| Contributions made                         | (167,255)    |
| Increase in net OPEB obligation            | 399,393      |
| Net OPEB obligation - beginning of year    | 864,488      |
| Net OPEB obligation - end of year          | \$ 1,263,881 |

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 was as follows:

| Fiscal<br>Year<br>Ended | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB<br>Cost Contributed | Net<br>OPEB<br>Obligation |
|-------------------------|---------------------|--------------------------------------------------|---------------------------|
| 6/30/2010               | \$ 409,500          | 32.68%                                           | \$ 492,723                |
| 6/30/2011               | 542,351             | 31.45%                                           | 864,488                   |
| 6/30/2012               | 566,648             | 29.52%                                           | 1,263,881                 |

*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, 2012

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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, 2010, was thirty years.

The actuarial assumptions included a discount rate of 4%. Healthcare cost trend rates ranged from an initial 10% 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)**

| <b>Schedule of Funding Progress - Postemployment Healthcare Plan:</b> |                               |                                                 |                           |                    |                     |                                                   |
|-----------------------------------------------------------------------|-------------------------------|-------------------------------------------------|---------------------------|--------------------|---------------------|---------------------------------------------------|
| Actuarial Valuation Date                                              | Actuarial Value of Assets (a) | Actuarial Accrued 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%                                            |

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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, 2012

|                                                              | <u>Budgeted Amounts</u> |                     | Actual<br>(GAAP Basis) | Variance with<br>Final Budget |
|--------------------------------------------------------------|-------------------------|---------------------|------------------------|-------------------------------|
|                                                              | <u>Original</u>         | <u>Final</u>        |                        | Positive -<br>(Negative)      |
| Revenues:                                                    |                         |                     |                        |                               |
| Revenue limit sources                                        | \$ 25,341,723           | \$ 25,924,809       | \$ 25,946,079          | \$ 21,270                     |
| Federal revenues                                             | 1,973,813               | 2,237,980           | 2,200,513              | (37,467)                      |
| Other state                                                  | 3,904,310               | 4,268,410           | 4,353,388              | 84,978                        |
| Other local                                                  | 2,741,699               | 3,541,437           | 3,399,554              | (141,883)                     |
| Total revenues                                               | <u>33,961,545</u>       | <u>35,972,636</u>   | <u>35,899,534</u>      | <u>(73,102)</u>               |
| Expenditures:                                                |                         |                     |                        |                               |
| Certificated salaries                                        | 19,233,065              | 19,528,834          | 19,370,949             | 157,885                       |
| Classified salaries                                          | 4,591,787               | 4,955,607           | 4,832,484              | 123,123                       |
| Employee benefits                                            | 6,577,096               | 6,634,556           | 6,564,006              | 70,550                        |
| Books and supplies                                           | 1,026,407               | 1,791,919           | 1,469,498              | 322,421                       |
| Services and other operating expenditures                    | 4,440,081               | 5,267,294           | 4,073,395              | 1,193,899                     |
| Capital outlay                                               | 10,000                  | 82,067              | 389,215                | (307,148)                     |
| Other outgo                                                  | 1,737,550               | 1,842,208           | 1,851,649              | (9,441)                       |
| Total expenditures                                           | <u>37,615,986</u>       | <u>40,102,485</u>   | <u>38,551,196</u>      | <u>1,551,289</u>              |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(3,654,441)</u>      | <u>(4,129,849)</u>  | <u>(2,651,662)</u>     | <u>1,478,187</u>              |
| Other financing sources (uses):                              |                         |                     |                        |                               |
| Transfers in                                                 | 3,856,950               | 3,762,237           | 3,364,899              | (397,338)                     |
| Transfers out                                                | (286,967)               | (286,422)           | (285,839)              | 583                           |
| Total other financing sources (uses)                         | <u>3,569,983</u>        | <u>3,475,815</u>    | <u>3,079,060</u>       | <u>(396,755)</u>              |
| Change in fund balance                                       | (84,458)                | (654,034)           | 427,398                | 1,081,432                     |
| Fund balances beginning                                      | <u>3,147,958</u>        | <u>3,147,958</u>    | <u>3,147,958</u>       | <u>-</u>                      |
| Fund balances ending                                         | <u>\$ 3,063,500</u>     | <u>\$ 2,493,924</u> | <u>\$ 3,575,356</u>    | <u>\$ 1,081,432</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, 2011

|                                                              | <u>Budgeted Amounts</u> |                     | Actual<br>(GAAP Basis) | Variance with<br>Final Budget<br>Positive -<br>(Negative) |
|--------------------------------------------------------------|-------------------------|---------------------|------------------------|-----------------------------------------------------------|
|                                                              | <u>Original</u>         | <u>Final</u>        |                        |                                                           |
| Revenues:                                                    |                         |                     |                        |                                                           |
| Revenue limit sources:                                       | \$ -                    | \$ -                | \$ -                   | \$ -                                                      |
| Federal revenues                                             | -                       | -                   | -                      | -                                                         |
| Other state                                                  | -                       | -                   | -                      | -                                                         |
| Other local                                                  | 12,415                  | 12,415              | 14,470                 | 2,055                                                     |
|                                                              | <u>12,415</u>           | <u>12,415</u>       | <u>14,470</u>          | <u>2,055</u>                                              |
| Total revenues                                               | <u>12,415</u>           | <u>12,415</u>       | <u>14,470</u>          | <u>2,055</u>                                              |
| Expenditures:                                                |                         |                     |                        |                                                           |
| Certificated salaries                                        | -                       | -                   | -                      | -                                                         |
| Classified salaries                                          | -                       | -                   | -                      | -                                                         |
| Employee benefits                                            | -                       | -                   | -                      | -                                                         |
| Books and supplies                                           | -                       | -                   | -                      | -                                                         |
| Services and other operating expenditures                    | -                       | 47,767              | 26,618                 | 21,149                                                    |
| Capital outlay                                               | 592,350                 | 563,407             | 232,231                | 331,176                                                   |
| Other outgo                                                  | -                       | -                   | -                      | -                                                         |
|                                                              | <u>592,350</u>          | <u>611,174</u>      | <u>258,849</u>         | <u>352,325</u>                                            |
| Total expenditures                                           | <u>592,350</u>          | <u>611,174</u>      | <u>258,849</u>         | <u>352,325</u>                                            |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(579,935)</u>        | <u>(598,759)</u>    | <u>(244,379)</u>       | <u>354,380</u>                                            |
| Other financing sources (uses):                              |                         |                     |                        |                                                           |
| Transfers in                                                 | 156,573                 | 156,028             | 156,028                | -                                                         |
| Transfers out                                                | -                       | -                   | -                      | -                                                         |
|                                                              | <u>156,573</u>          | <u>156,028</u>      | <u>156,028</u>         | <u>-</u>                                                  |
| Total other financing sources (uses)                         | <u>156,573</u>          | <u>156,028</u>      | <u>156,028</u>         | <u>-</u>                                                  |
| Change in fund balance                                       | (423,362)               | (442,731)           | (88,351)               | 354,380                                                   |
| Fund balances beginning                                      | <u>2,539,939</u>        | <u>2,539,939</u>    | <u>2,539,939</u>       | <u>-</u>                                                  |
| Fund balances ending                                         | <u>\$ 2,116,577</u>     | <u>\$ 2,097,208</u> | <u>\$ 2,451,588</u>    | <u>\$ 354,380</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, 2012

|                                            | Special Revenue<br>Fund | Capital Projects<br>Fund      |                                         |
|--------------------------------------------|-------------------------|-------------------------------|-----------------------------------------|
|                                            | Cafeteria<br>Fund       | Capital<br>Facilities<br>Fund | Total Nonmajor<br>Governmental<br>Funds |
| <b>Assets</b>                              |                         |                               |                                         |
| Cash and investments                       | \$ 21,092               | \$ 103,824                    | \$ 124,916                              |
| Accounts receivable                        | 55,139                  | 152                           | 55,291                                  |
| Due from other funds                       | -                       | -                             | -                                       |
| Stores inventories                         | 20,841                  | -                             | 20,841                                  |
| <b>Total Assets</b>                        | <b>\$ 97,072</b>        | <b>\$ 103,976</b>             | <b>\$ 201,048</b>                       |
| <b>Liabilities and Fund Balances</b>       |                         |                               |                                         |
| Liabilities:                               |                         |                               |                                         |
| Accounts payable                           | \$ 27,147               | \$ 537                        | \$ 27,684                               |
| Due to other funds                         | 49,084                  | 103,439                       | 152,523                                 |
| <b>Total Liabilities</b>                   | <b>76,231</b>           | <b>103,976</b>                | <b>180,207</b>                          |
| Fund Balances:                             |                         |                               |                                         |
| Nonspendable stores inventories            | 20,841                  | -                             | 20,841                                  |
| Unassigned                                 | -                       | -                             | -                                       |
| <b>Total Fund Balances</b>                 | <b>20,841</b>           | <b>-</b>                      | <b>20,841</b>                           |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 97,072</b>        | <b>\$ 103,976</b>             | <b>\$ 201,048</b>                       |

**Union School District**  
 Nonmajor Governmental Funds  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 For the Fiscal Year Ended June 30, 2012

|                                                              | Special Revenue<br>Fund | Capital Projects<br>Fund      |                                         |
|--------------------------------------------------------------|-------------------------|-------------------------------|-----------------------------------------|
|                                                              | Cafeteria<br>Fund       | Capital<br>Facilities<br>Fund | Total Nonmajor<br>Governmental<br>Funds |
| Revenues:                                                    |                         |                               |                                         |
| Revenue limit sources                                        | \$ -                    | \$ -                          | \$ -                                    |
| Federal revenue                                              | 336,160                 | -                             | 336,160                                 |
| Other state                                                  | 27,919                  | -                             | 27,919                                  |
| Other local                                                  | 475,173                 | 58,057                        | 533,230                                 |
| Total revenues                                               | <u>839,252</u>          | <u>58,057</u>                 | <u>897,309</u>                          |
| Expenditures:                                                |                         |                               |                                         |
| Current                                                      |                         |                               |                                         |
| Pupil services:                                              |                         |                               |                                         |
| Food services                                                | 904,775                 | -                             | 904,775                                 |
| General administration:                                      |                         |                               |                                         |
| All other general administration                             | -                       | 850                           | 850                                     |
| Facilities acquisition and construction                      | -                       | 338,128                       | 338,128                                 |
| Total expenditures                                           | <u>904,775</u>          | <u>338,978</u>                | <u>1,243,753</u>                        |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(65,523)</u>         | <u>(280,921)</u>              | <u>(346,444)</u>                        |
| Other financing sources (uses):                              |                         |                               |                                         |
| Transfers in                                                 | 68,810                  | -                             | 68,810                                  |
| Transfers out                                                | -                       | -                             | -                                       |
| Total other financing sources (uses)                         | <u>68,810</u>           | <u>-</u>                      | <u>68,810</u>                           |
| Change in fund balances                                      | 3,287                   | (280,921)                     | (277,634)                               |
| Fund balances beginning                                      | <u>17,554</u>           | <u>280,921</u>                | <u>298,475</u>                          |
| Fund balances ending                                         | <u>\$ 20,841</u>        | <u>\$ -</u>                   | <u>\$ 20,841</u>                        |

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STATE AND FEDERAL  
AWARD COMPLIANCE  
SECTION

**Union School District**

Organization

June 30, 2012

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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, 2012, was comprised of the following members:

**Governing Board**

| <u>Name</u>     | <u>Office</u>  | <u>Term Expires</u> |
|-----------------|----------------|---------------------|
| Cindy Goodsell  | President      | 2014                |
| Harold Stuart   | Vice President | 2012                |
| Shelia Billings | Clerk          | 2014                |
| Janice Hector   | Member         | 2014                |
| Vickie Brown    | Member         | 2012                |

**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, 2012

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|                          | <u>Second<br/>Period<br/>Report</u> | <u>Annual<br/>Report</u>   |
|--------------------------|-------------------------------------|----------------------------|
| Elementary:              |                                     |                            |
| Kindergarten             | 542.43                              | 542.73                     |
| Grades one through three | 1,641.70                            | 1,645.02                   |
| Grades four through six  | 1,601.94                            | 1,604.51                   |
| Grades seven and eight   | 1,032.79                            | 1,034.22                   |
| Special education        | 87.86                               | 88.57                      |
| Home and hospital        | 3.22                                | 3.54                       |
| Elementary Totals        | <u>4,909.94</u>                     | <u>4,918.59</u>            |
| <br>ADA Totals           | <br><u><u>4,909.94</u></u>          | <br><u><u>4,918.59</u></u> |

**Union School District**  
Schedule of Instructional Time Offered  
For the Fiscal Year Ended June 30, 2012

| Grade Level  | 1982-83           | Reduced                                     | 1986-87                 | Reduced                                           | 2011-12 | Number<br>of Days<br>Traditional<br>Calendar | Number<br>of Days<br>Multitrack<br>Calendar | Status        |
|--------------|-------------------|---------------------------------------------|-------------------------|---------------------------------------------------|---------|----------------------------------------------|---------------------------------------------|---------------|
|              | Actual<br>Minutes | 1982-83<br>Actual<br>Minutes <sup>(1)</sup> | Minutes<br>Requirements | 1986-87<br>Minutes<br>Requirements <sup>(1)</sup> |         |                                              |                                             |               |
| Kindergarten | 31,680            | 29,508                                      | 36,000                  | 33,531                                            | 38,232  | 180                                          | 0                                           | In compliance |
| Grade 1      | 51,045            | 47,545                                      | 50,400                  | 46,944                                            | 52,832  | 180                                          | 0                                           | In compliance |
| Grade 2      | 51,045            | 47,545                                      | 50,400                  | 46,944                                            | 52,832  | 180                                          | 0                                           | In compliance |
| Grade 3      | 51,045            | 47,545                                      | 50,400                  | 46,944                                            | 52,832  | 180                                          | 0                                           | In compliance |
| Grade 4      | 52,800            | 49,179                                      | 54,000                  | 50,297                                            | 54,323  | 180                                          | 0                                           | In compliance |
| Grade 5      | 52,800            | 49,179                                      | 54,000                  | 50,297                                            | 54,323  | 180                                          | 0                                           | In compliance |
| Grade 6      | 52,800            | 49,179                                      | 54,000                  | 50,297                                            | 58,217  | 180                                          | 0                                           | In compliance |
| Grade 7      | 52,800            | 49,179                                      | 54,000                  | 50,297                                            | 58,217  | 180                                          | 0                                           | In compliance |
| Grade 8      | 52,800            | 49,179                                      | 54,000                  | 50,297                                            | 58,217  | 180                                          | 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.

<sup>(1)</sup>Commencing in the 2009-10 school year and continuing through the 2012-13 school year, a school district, county office of ed. or charter school may reduce the equivalent of up to 7 days of instruction or the equivalent number of instructional minutes without incurring penalties set forth in Sections 41420, 46200, 46200.5, 46201, 46202, and 47612.5. A school district, county office of ed, 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, 2012

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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, 2012

|                                                      | (Budget <sup>1</sup> )<br>2013 | 2012           | 2011           | 2010           |
|------------------------------------------------------|--------------------------------|----------------|----------------|----------------|
| <u>General Fund</u>                                  |                                |                |                |                |
| Revenues and other financial sources                 | \$ 39,739,901                  | \$ 39,264,433  | \$ 37,569,549  | \$ 35,835,924  |
| Expenditures                                         | 39,520,465                     | 38,551,196     | 37,954,340     | 33,941,403     |
| Other uses and transfers (out)                       | 287,617                        | 285,839        | 290,264        | 1,932,676      |
| Total outgo                                          | 39,808,082                     | 38,837,035     | 38,244,604     | 35,874,079     |
| Change in fund balance                               | \$ (68,181)                    | \$ 427,398     | \$ (675,055)   | \$ (38,155)    |
| Ending fund balance                                  | \$ 3,507,175                   | \$ 3,575,356   | \$ 3,147,958   | \$ 3,823,013   |
| Available reserves <sup>(2)(3)</sup>                 | \$ 1,194,243                   | \$ 1,165,113   | \$ 1,147,338   | \$ 1,076,223   |
| Reserve for economic uncertainties                   | \$ 1,194,243                   | \$ 1,165,113   | \$ 1,147,338   | \$ 1,076,223   |
| Unassigned fund balance                              | \$ -                           | \$ -           | \$ -           | \$ -           |
| Available reserves as a percentage<br>of total outgo | 3.0%                           | 3.0%           | 3.0%           | 3.0%           |
| Total long-term debt                                 | \$ 109,741,477                 | \$ 112,564,561 | \$ 112,447,533 | \$ 106,982,088 |
| Average daily attendance (ADA) at P-2                | 5,009                          | 4,910          | 4,653          | 4,577          |

ADA has increased by 333 over the past three years. The district anticipates a increase of 99 ADA in 2012-13.

The general fund balance has decreased by \$247,657 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 2012-13 budget projects a \$68,181 decrease in fund balance.

The district has had an operating deficit in two of the past three years. Total long-term debt has decreased by \$5,579,142 over the past three years.

<sup>1</sup> Budget numbers are based on the first adopted budget of the fiscal year 2012/13.

<sup>2</sup> 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, 2012

| <u>PROGRAM NAME</u>                                               | <u>Federal<br/>Catalog<br/>Number</u> | <u>Pass-Through<br/>Entity<br/>Identifying<br/>Number</u> | <u>Program<br/>Expenditures</u> |
|-------------------------------------------------------------------|---------------------------------------|-----------------------------------------------------------|---------------------------------|
| <b>U. S. DEPARTMENT OF AGRICULTURE:</b>                           |                                       |                                                           |                                 |
| Passed through California Department of Education:                |                                       |                                                           |                                 |
| Child Nutrition - National School Lunch Program                   | 10.555                                | (1) 13524                                                 | <u>\$ 336,160</u>               |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE                              |                                       |                                                           | <u>336,160</u>                  |
| <b>U. S. DEPARTMENT OF EDUCATION:</b>                             |                                       |                                                           |                                 |
| Passed through California Department of Education:                |                                       |                                                           |                                 |
| <i>Education Technology State Grants Cluster</i>                  |                                       |                                                           |                                 |
| Title II Enhancing Education Through Technology                   | 84.318                                | 14334                                                     | <u>458</u>                      |
| <i>Total Education Technology State Grants Cluster</i>            |                                       |                                                           | <u>458</u>                      |
| <i>Special Education Cluster</i>                                  |                                       |                                                           |                                 |
| IDEA Local Assistance                                             | 84.027                                | 13379                                                     | 677,069                         |
| IDEA Local Assistance - Private School                            | 84.027                                | 10115                                                     | 7,523                           |
| IDEA Preschool Local Assistance                                   | 84.027                                | 13682                                                     | 63,613                          |
| IDEA Mental Health                                                | 84.027                                | 14468                                                     | 56,042                          |
| IDEA Preschool                                                    | 84.173                                | 13430                                                     | 29,362                          |
| IDEA Preschool Staff Development                                  | 84.173                                | 13431                                                     | 270                             |
| ARRA Preschool Grants                                             | 84.392                                | 15000                                                     | 7,603                           |
| ARRA Special Education Grants                                     | 84.391                                | 15002                                                     | 9,629                           |
| <i>Total Special Education Cluster</i>                            |                                       |                                                           | <u>851,111</u>                  |
| <i>Title I, Part A Cluster</i>                                    |                                       |                                                           |                                 |
| Title I, Basic Grants Low Income and Neglected                    | 84.010                                | 14981                                                     | <u>176,726</u>                  |
| <i>Total Title I, Part A Cluster</i>                              |                                       |                                                           | <u>176,726</u>                  |
| Title IV, Drug Free Schools                                       | 84.186                                | 14347                                                     | 3,536                           |
| Medi-Cal Billing Option                                           | 93.778                                | 10013                                                     | 26,418                          |
| NCLB: Title III, Limited English Proficient (LEP) Student Program | 84.365                                | 14346                                                     | 97,561                          |
| Title II, Improving Teacher Quality                               | 84.367                                | 14341                                                     | 102,408                         |
| ARRA Education Jobs Fund                                          | 84.410                                | (1) 25152                                                 | 876,031                         |
| ARRA State Fiscal Stabilization Fund                              | 84.394                                | 24997                                                     | <u>23,714</u>                   |
| TOTAL U. S. DEPARTMENT OF EDUCATION                               |                                       |                                                           | <u>2,157,963</u>                |
| <b>TOTAL FEDERAL PROGRAMS</b>                                     |                                       |                                                           | <u><u>\$ 2,494,123</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, 2012

|                                                                   | General<br>Fund     | Deferred<br>Maintenance<br>Fund | Building<br>Fund    | Bond Interest<br>and<br>Redemption<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Internal Service<br>Self Insurance<br>Fund<br>(OPEB) |
|-------------------------------------------------------------------|---------------------|---------------------------------|---------------------|--------------------------------------------|--------------------------------------------|------------------------------------------------------|
| June 30, 2012 Annual Financial and Budget<br>Report Fund Balances | \$ 3,575,356        | \$ 2,451,588                    | \$ 9,789,087        | \$ 5,074,474                               | \$ 20,841                                  | \$ 9,016,417                                         |
| Adjustments and Reclassifications:<br>None                        | -                   | -                               | -                   | -                                          | -                                          | -                                                    |
| June 30, 2012 Audited Financial<br>Statements Fund Balances       | <u>\$ 3,575,356</u> | <u>\$ 2,451,588</u>             | <u>\$ 9,789,087</u> | <u>\$ 5,074,474</u>                        | <u>\$ 20,841</u>                           | <u>\$ 9,016,417</u>                                  |

**Union School District**  
Schedule of Excess Sick Leave  
For the Fiscal Year Ended June 30, 2012

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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, 2012

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**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, 2012

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**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

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**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 the basic financial statements of Union School District as of and for the year ended June 30, 2012, and have issued our report thereon dated November 9, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control over Financial Reporting*

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Union School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Union School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Union School District's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Union School District's financial statements are free of material misstatement, we performed tests of its compliance with



**Chavan & Associates, LLP**  
Certified Public Accountants

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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*.

This report is intended for the information of the Board, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

November 9, 2012  
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

*Compliance*

We have audited Union School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Union School District's major federal programs for the year ended June 30, 2012. Union School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Union School District's management. Our responsibility is to express an opinion on Union School District's compliance 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 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 Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Union School District's compliance with those requirements.

In our opinion, Union School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

*Internal Control over Compliance*

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



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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

C & A LLP

November 9, 2012  
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

We have audited Union School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2011-12*, published by the Education Audit Appeals Panel that could have a direct and material effect on each of Union School District's State programs for the year ended June 30, 2012. Compliance with the applicable requirements is the responsibility of Union School District's management. Our responsibility is to express an opinion on the District's compliance with the applicable requirements based on our compliance audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2011-12*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the compliance 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 State program occurred. The compliance audit includes examining, on a test basis, evidence about Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our compliance audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Union School 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<br/>in the<br/>Audit Guide</u> | <u>Procedures<br/>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<br/>in the<br/>Audit Guide</u> | <u>Procedures<br/>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                  |
| Exclusion of Pupils - Pertussis Immunization                  | 2                                            | 2                               |
| 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.

In our opinion, Union School 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, 2012.

This report is intended solely for the information and use of the District Board, management, State Controller's Office, Department of Finance, Department of Education and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*C & A LLP*

November 9, 2012  
 San Jose, California

FINDINGS AND  
RECOMMENDATIONS

**Union School District**  
 Schedule of Findings and Questioned Costs  
 For the Fiscal Year Ended June 30, 2012

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**Section 1 - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued **Unqualified**

Internal control over financial reporting:

Material weaknesses? \_\_\_\_\_ Yes   x   No

Significant deficiencies identified not  
considered to be material weaknesses? \_\_\_\_\_ Yes   x   No

Non-compliance material to financial statements noted? \_\_\_\_\_ Yes   x   No

**Federal Awards**

Internal control over major programs:

Material weaknesses? \_\_\_\_\_ Yes   x   No

Significant deficiencies identified not  
considered to be material weaknesses? \_\_\_\_\_ Yes   x   No

Type of auditor's report issued on compliance over major programs **Unqualified**

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

Identification of Major Programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program</u>                  |
|---------------------|-------------------------------------------------|
| 10.555              | Child Nutrition - National School Lunch Program |
| 84.410              | ARRA Education Jobs Fund                        |

Dollar threshold used to distinguish between  
type A and type B programs: \$ 300,000

Auditee qualified as low risk auditee? \_\_\_\_\_ Yes   x   No

**State Awards**

Internal control over state programs:

Material weaknesses? \_\_\_\_\_ Yes   x   No

Significant deficiencies identified not  
considered to be material weaknesses? \_\_\_\_\_ Yes   x   No

Type of auditor's report issued on compliance over state programs: **Unqualified**

**Union School District**  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012

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**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, 2012

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**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - State Award Findings and Questioned Costs**

None