

Board of Trustees
Elk Grove Unified School District
Elk Grove, California

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the District for further information on the responsibilities of management and of Crowe Horwath LLP.

AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts or disclosures. 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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We are to communicate an overview of the planned scope and timing of the audit. Accordingly, the following matters will be discussed during our meeting with you.

- How we addressed the significant risks of material misstatement, whether due to fraud or error.
- Our approach to internal control relevant to the audit.
- The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts.
- Where the entity has an internal audit function, the extent to which the auditor used the work of internal audit, and how the external and internal auditors best work together.

- Your views and knowledge about matters you consider warrant our attention during the audit, as well as your views on:
 - The allocation of responsibilities between you and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Significant communications with regulators.
 - Other matters you believe are relevant to the audit of the financial statements.

SIGNIFICANT ACCOUNTING POLICIES AND MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Significant Accounting Policies: The Board of Trustees should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Board of Trustees should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Board of Trustees about such matters. To assist the Board of Trustees in its oversight role, we also provide the following.

Accounting Standard	Impact of Adoption
GASB No. 66, Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 61. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 64, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements.	Adoption of this GASB did not have a material impact on the District’s financial position or results of operations.
GASB No. 67- Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position.	Adoption of this GASB did not have a material impact on the District’s financial position or results of operations.
Significant Unusual Transactions.	No such matters noted.
Significant Accounting Policies in Controversial or Emerging Areas.	No such matters noted.

Management Judgments and Accounting Estimates: Further, accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. These judgments are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's current judgments and may be subject to significant change in the near term.

The following describes the significant accounting estimates reflected in the District's year end financial statements, the process used by management in formulating these particularly sensitive accounting estimates and the primary basis for our conclusions regarding the reasonableness of those estimates.

Significant Accounting Estimate	Process Used by Management	Basis for Our Conclusions
Local Control Funding Formula	Management calculates a LCFF Target and LCFF Floor to determine their funding amount. The LCFF Target is calculated using a Base Grant Funding, Supplemental Grant Funding, Concentration Grant Funding, and Add-On Funding. The LFCC Floor is calculated using a Floor Entitlement, Current Year Gap Funding, Economic Recovery Target, and Additional LCFF State Aid to Meet the Minimum. The LCFF calculation also assumes a cost-of-living adjustment.	We tested the propriety of information underlying management's estimates.
Useful Lives of Fixed Assets	Management has determined the economic useful lives of fixed assets based on past history of similar types of assets, future plans as to their use, and other factors that impact their economic value to the District.	We tested the propriety of information underlying management's estimates.

AUDITOR'S JUDGMENTS ABOUT QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

We are to discuss with you our comments about the following matters related to the District's accounting policies and financial statement disclosures. Accordingly, these matters will be discussed during our meeting with you.

- The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements.
- The overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- The effect of the timing of transactions in relation to the period in which they are recorded.
- The potential effect on the financial statements of significant risks and exposures, and uncertainties that are disclosed in the financial statements.
- The extent to which the financial statements are affected by unusual transactions including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures.

- The factors affecting asset and liability carrying values, including the entity's basis for determining useful lives assigned to tangible and intangible assets.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Corrected Misstatements: We are to inform you of material corrected misstatements that were brought to the attention of management as a result of our audit procedures.

There were no such misstatements.

Uncorrected Misstatements: We are to inform you of uncorrected misstatements that were aggregated by us during the current engagement and pertaining to the latest and prior period(s) presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For your consideration, we have distinguished misstatements between known misstatements and likely misstatements.

There were no such misstatements.

OTHER COMMUNICATIONS

Communication Item	Results
<p>Other Information In Documents Containing Audited Financial Statements</p> <p>Information may be prepared by management that accompanies the financial statements. To assist your consideration of this information, you should know that we are required by audit standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information materially inconsistent based on this reading, we are to seek a resolution of the matter.</p>	<p>We understand that management has not prepared such information to accompany the audited financial statements.</p>
<p>Significant Difficulties Encountered During the Audit</p> <p>We are to inform you of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>There were no significant difficulties encountered in dealing with management related to the performance of the audit.</p>
<p>Disagreements With Management</p> <p>We are to discuss with you any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the District's financial statements or the auditor's report.</p>	<p>During our audit, there were no such disagreements with management.</p>

Communication Item	Results
<p>Consultations With Other Accountants If management consulted with other accountants about auditing and accounting matters, we are to inform you of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation.</p>	<p>We are not aware of any instances where management consulted with other accountants about auditing or accounting matters since no other accountants contacted us, which they are required to do by Statement on Auditing Standards No. 50, before they provide written or oral advice.</p>
<p>Representations The Auditor Is Requesting From Management We are to provide you with a copy of management's requested written representations to us.</p>	<p>We direct your attention to a copy of the letter of management's representation to us provided separately.</p>
<p>Significant Issues Discussed, or Subject to Correspondence, With Management We are to communicate to you any significant issues that were discussed or were the subject of correspondence with management.</p>	<p>There were no such significant issues discussed, or subject to correspondence, with management.</p>
<p>Significant Related Party Findings and Issues We are to communicate to you significant findings and issues arising during the audit in connection with the District's related parties.</p>	<p>There were no such findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>
<p>Other Findings or Issues We Find Relevant or Significant We are to communicate to you other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>	<p>There were no such other findings or issues that are, in our judgment, significant and relevant to you regarding your oversight of the financial reporting process.</p>

We are pleased to serve your District as its independent auditors and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities, and would be pleased to discuss this letter or any matters further, should you desire. This letter is intended solely for the information and use of the Board of Trustees and, if appropriate, management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 2, 2014



Members of the Board:

Jeanette J. Amavisca
Priscilla S. Cox
Carmine S. Forcina
Steve Ly
Chet Madison, Sr.
Anthony "Tony" Perez
Bobbie Singh-Allen

Christopher R. Hoffman
Superintendent
(916) 686-7700

9510 Elk Grove Florin Road, Elk Grove, CA 95624



December 2, 2014

Crowe Horwath LLP
400 Capital Mall, Suite 1400
Sacramento, California 95814

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of Elk Grove Unified School District as of June 30, 2014 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Elk Grove Unified School District and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Except where otherwise stated below, immaterial matters less than \$2,600,000 for the governmental activities, \$1,000,000 for the General Fund, \$100,000 for the State School Facilities fund and \$200,000 for the aggregate remaining fund information collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated March 28, 2014 for the preparation and fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States, and we believe the financial statements are fairly presented and include all properly classified funds and other financial information of the primary government to be included in the financial reporting entity.
2. We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
3. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts. and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

4. We have made provided you --
 - a. Access to all financial records, documentation and other information that is relevant to the preparation and fair presentation of the financial statements.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. Audit or relevant monitoring reports, if any, received from funding sources.
 - f. Results of the assessment of risk that the financial statements may be materially misstated as a result of fraud.
5. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
6. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditure of federal awards.
7. We have no plans or intentions that might materially affect the carrying value or classification of assets, deferred outflows, liabilities, and deferred inflows.
8. We have identified all accounting estimates that materially affect recorded amounts and disclosures in the financial statements, and the key factors and significant assumptions underlying those estimates. We believe the estimates are reasonable in the circumstances.

These estimates include:

 - a. Local Control Funding Formula recorded revenue and association receivable.
 - b. Useful life of capital assets.
9. Adequate consideration and provision has been made, when necessary, for any material losses likely to be sustained from:
 - a. Sales commitments.
 - b. Sale of inventory, including excess or obsolete inventories on hand.
 - c. Purchase commitments for inventory quantities in excess of normal requirements or at a price in excess of market.
 - d. Impairment of long-lived assets when the carrying amount may not be recoverable.
 - e. Collection of receivables.
 - f. Environmental remediation liabilities.

10. Except as disclosed in the financial statements, or directly to you, there are or have been no material:
 - a. Arrangements, either written or oral, with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - b. Oral or written guarantees under which the entity is contingently liable.
 - c. Other financial instruments with significant "off-balance-sheet" risk of accounting loss to which the entity is a party.
 - d. Concentrations that make the entity vulnerable to the risk of a severe impact within one year from the balance sheet date (including, for example, individual or group concentrations of customers, suppliers, lenders, products, services, sources of labor or materials, licenses or other rights, operating areas or markets).
 - e. Significant accounting estimates that are susceptible to changing materially as a result of an event or change in conditions that is reasonably possible of occurrence within one year from the balance sheet date.
 - f. Liens, encumbrances or other title impairments, such as pledges as collateral, on entity assets at the balance sheet date.
 - g. Restrictions under borrowing agreements.
 - h. Unrecorded transactions.
 - i. Significant events that have occurred subsequent to the balance sheet date through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
 - j. Declines in market value of investments that are not temporary.
11. We have disclosed to you all known actual or possible litigation, claims and assessments whose effects should be considered by management when preparing the financial statements. These matters have been accounted for and disclosed in conformity with accounting principles generally accepted in the United States and GASB 62.
12. Settlements have not exceeded commercial insurance coverage for each of the last three years.
13. Related parties and all related party relationships and transactions, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been disclosed to you, and have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of accounting principles generally accepted in the United States.
14. Except as disclosed to you, we have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management, whether material or not.
 - b. Employees who have significant roles in internal control, whether material or not.
 - c. Others when the fraud could have a material effect on the financial statements.
15. Except as disclosed to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.

16. Except as disclosed to you, there have been no:
 - a. Instances of non-compliance or suspected non-compliance with budget ordinances, laws or regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered when preparing the financial statements.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB 62.
 - c. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
 - d. Reservations or designations of fund equity that were not properly authorized and approved.
17. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
18. We are responsible for the presentation of the supplementary information in accordance with the applicable criteria and believe the supplementary information, including its form and content, is fairly presented in accordance with these criteria. The methods of measurement and presentation have not changed from those used in the prior period. All significant assumptions or interpretations underlying the measurement and presentation of the supplementary information have been identified and disclosed to you. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
19. We are responsible for the required supplementary information, including that such information is measured and presented in accordance with prescribed guidelines. The methods of measurement or presentation have not changed from those used in the prior period. All significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information have been disclosed to you.
20. We understand that during the course of your audit, you have relied on work performed by the following specialists. We confirm that we have no relationships with those specialists that may bear on their objectivity, such as the ability through employment, ownership, contractual right, family relationship or otherwise to directly or indirectly control or significantly influence the specialist.
 - Bickmore Risk Services
21. We agree with the findings of specialists in evaluating the valuation and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of matters that have had an effect on the independence or objectivity of the specialists.
22. During the course of your audit, we have provided to you physical or electronic copies of various original documents. We understand that you are relying on such copies as audit evidence in your audit and represent that copies provided are an accurate and completed representation of the original documentation and that the copies have not been modified from their original version.

23. The financial statements include all component units that meet the criteria of financial accountability or which are otherwise considered misleading to exclude, the classification of these component units as discretely presented or blended is appropriate, and the relationships and criteria for inclusion are properly disclosed.
24. The financial statements include all joint ventures with an equity interests and properly disclose these joint ventures and other related organizations.
25. The financial statements properly classify all funds and activities.
26. All funds that meet the quantitative criteria in GASB Statements Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to the financial statement users.
27. Net position components (net investment in capital assets, restricted, and unrestricted) are properly classified and fund balance types (including minimum fund balance policies and/or stabilization agreements, if applicable) are properly presented and disclosed pursuant to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
28. Expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
29. Revenues are properly classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
30. Interfund, internal, and intra-entity activity and balances have been properly classified and reported.
31. Special and extraordinary items are properly classified and reported.
32. Deposits and investment securities are properly classified in category of custodial credit risk.
33. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
34. All suggested adjusting journal entries, as discussed and approved, will be recorded in the accounting records.

35. With respect to the audit in accordance with *Government Auditing Standards*:

- a. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Entity.
- b. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of laws and regulations that have a material effect on the determination of financial statement amounts, and that warrant the attention of those charged with governance.
- c. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
- d. We have identified and disclosed to you all instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements.
- e. We have a process to track the status of audit findings and recommendations.
- f. If applicable, we have identified for you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- g. We have provided views on the reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
- h. We acknowledge our responsibilities related to the non-audit services such as, assistance with preparing financial statements and assistance with the Schedule of Expenditure of Federal Awards were performed by you as follows:
 - we assume all management responsibilities for these services;
 - we oversaw these services by designating an individual within senior management who possessed suitable skill, knowledge, or experience;
 - we have evaluated the adequacy and results of the services performed;
- j. We accept responsibility for the results of these services.

36. With respect to the requirements of the Office of Management and Budget Circular A-133 related to federal awards:

- a. We are responsible for complying, and have complied, with the requirements of Circular A-133.
- b. We are responsible for the presentation of the Schedule of Expenditures of Federal Awards (SEFA) in accordance with OMB Circular A-133 and believe the SEFA, including its form and content, is fairly presented in accordance with these criteria. The methods of measurement and presentation have not changed from those used in the prior period. All significant assumptions or interpretations underlying the measurement and presentation of the SEFA have been identified and disclosed to you. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
- c. We are responsible for understanding complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
- d. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that the organization is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

- e. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- f. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondences that have taken place with federal agencies or pass-through entities and are related to federal programs.
- g. We have complied, in all material respects, with the direct and material compliance requirements of federal award programs, except as disclosed to you.
- h. We have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material requirements of federal awards.
- i. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- j. If applicable, we have provided our interpretations of any compliance requirements that are subject to varying interpretations.
- k. If applicable, we have disclosed communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. If applicable, we have disclosed the findings received and the related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including the findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- m. If applicable, we have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
- n. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.
- o. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to deficiencies, significant deficiencies, and material weaknesses have occurred subsequent to the date as of which compliance is audited.
- p. We have complied with reporting requirements in connection with federal awards, and information presented in federal financial reports and claims for advances and reimbursements is supported by the accounting records from which the financial statements prepared.
- q. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- r. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.
- s. We have accurately completed the appropriate sections of the data collection form, or have reviewed those sections as prepared by you.
- t. If applicable, we have disclosed all contracts or other agreements with the service organizations.

- u. If applicable, we have disclosed to you all communications from the service organization relating to noncompliance at the service organization.
- v. Costs charged to federal awards are in accordance with applicable cost principles.

37. We understand that you have assisted us with the preparation of our financial statements and footnotes and we have reviewed and approved the financial statements and footnotes and take full responsibility for them.



Christopher R. Hoffman
Superintendent



Rich Fagan
Associate Superintendent, Finance & School Support



Carrie Hargis
Director of Fiscal Services

ELK GROVE UNIFIED SCHOOL DISTRICT
Elk Grove, California

FINANCIAL STATEMENTS
June 30, 2014

ELK GROVE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2014

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ELK GROVE UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

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ELK GROVE UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Elk Grove Unified School District
Elk Grove, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elk Grove Unified School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Elk Grove Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elk Grove Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4 through 12 and the General Fund Budgetary Comparison Schedule and Schedule of Other Postemployment Benefits (OPEB) Funding Progress on pages 48 and 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014 on our consideration of Elk Grove Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Elk Grove Unified School District's internal control over financial reporting and compliance.

Crowe Horwath LLP
Crowe Horwath LLP



Members of the Board

Jeanette J. Amavisca
Priscilla S. Cox
Carmine S. Forcina
Steve Ly
Chet Madison, Sr.
Anthony "Tony" Perez
Bobbie Singh-Allen

Christopher R. Hoffman
Superintendent
(916) 686-7700

9510 Elk Grove-Florin Road, Elk Grove, CA 95624

Management's Discussion and Analysis

The following discussion and analysis is reflecting the 2013/2014 school year. Elk Grove Unified School District is the 5th largest school district in California. Located in southern Sacramento County, the District covers 320 square miles, which is one-third of the county. The communities of Florin, Franklin, Laguna Creek, Laguna West, Rancho Murietta, Sheldon, Sloughhouse, Valley Hi, Vineyard, Wilton, all of the City of Elk Grove and parts of the cities of Sacramento and Rancho Cordova are included in the District boundaries. Elk Grove Unified operates 39 elementary schools (grades TK-6), nine middle schools (grades 7-8), nine high schools (grades 9-12), three continuation schools, one K-12 independent study program, one charter school, one virtual online K-8 program and one special education school. In addition, the District offers preschool programs at 12 school sites, an adult education program and a career-training center for adults. Students speak more than 88 languages and dialects. Of the more than 62,000 students that attend our schools: 15 percent are African American, 1 percent are American Indian, 22 percent are Asian, 5 percent are Filipino, 26 percent are Hispanic, 1 percent are Pacific Islander, 23 percent are White and 7 percent are Multiple/No Response. A top performing district, Elk Grove Unified is recognized throughout California and the nation as a leader in progressive education. Academic achievement takes place through classes that are rigorous, relevant and build strong relationships. Elk Grove Unified schools focus on meeting the needs of each child. This focus includes college and career preparation, wellness and safety.

During the last decade Elk Grove Unified School District was one of the fastest growing school districts in the nation. The housing crisis and recession dramatically slowed the District's growth. Up until fiscal year 2004/05 the average yearly growth for the District was 5.53%. The District continued to grow during 2005/06 to 2007/08; however, there was a decrease in the rate of growth over the prior year. In 2008/09 the District experienced the first decline in the history of the district with a .23% decrease in enrollment over 2007/08. Enrollment during 2009/10 and 2010/11 resulted in a small increase in enrollment of approximately .5%. During 2011/12 the District experienced a slight decline of .65%, 2012/13 there was an increase of approximately .26% and enrollment for 2013/14 increased by .56%.

For the 2013/2014 school year the District employed on a regular basis 3,312 certificated employees, and 2,200 classified employees.

Mission Statement and Core Values

On June 18, 2001 the Board of Trustees for Elk Grove Unified School District adopted a new Mission Statement. This statement reads:

Elk Grove Unified School District will provide a learning community that challenges ALL students to realize their greatest potential.

Coupled with this mission statement are the following Core Values:

- **Outcomes for students**
 - Achievement of core academic skills
 - Confident, effective thinkers and problem solvers
 - Ethical participants in society
- **Commitments about how we operate as an organization**
 - Supporting continuous improvement of instruction
 - Building strong relationships
 - Finding solutions
- **High expectations for learning for all students and staff**
 - Instructional excellence
 - Safe, peaceful, and healthy environment
 - Enriched learning atmosphere
 - Collaboration with diverse communities and families

This Mission Statement and Core Values are the basis and guiding principles for our District.

Financial Reports

In June 1999, the Governmental Accounting Standards Board (GASB) issued Codification Section N50.118-.121 (formerly GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*. This standard significantly changed the way school districts report their finances to the public. While each individual fund is monitored, greater focus of financial reporting is now on the overall status of the local educational agency's (LEA) financial health.

Fiscal year 2001/2002 was the first year the District accounted for the value of capital assets and included these values as part of the financial statements. The value of all assets including land, buildings, equipment and depreciation, are now displayed as part of the statements as required by N50.118-.121. Net position, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial position is improving or declining.

Statement of Net Position

The *Statement of Net Position* for the 2013/14 year shows the District's net position as \$657,294,969. This amount includes the value of the land, buildings, and equipment (less depreciation) owned by the District as well as all liabilities such as bond repayment obligations. The table below summarizes the change in net assets from 2012/13 to 2013/14.

Statement of Net Position		
	June 30, 2013	June 30, 2014
Assets other than capital	\$ 266,710,118	\$ 398,039,797
Capital assets net of accumulated depreciation	<u>710,541,275</u>	<u>511,856,130</u>
Total assets	<u>977,251,393</u>	<u>909,895,927</u>
Deferred loss on refunding of debt	473,422	455,641
Liabilities other than long term	93,560,168	50,526,964
Long term liabilities	<u>207,290,096</u>	<u>202,529,635</u>
Total liabilities	<u>300,850,264</u>	<u>253,056,599</u>
Ending Net Position	<u>\$ 676,874,551</u>	<u>\$ 657,294,969</u>

Statement of Activities

Governmental Activities		
	June 30, 2013	June 30, 2013
Revenues		
Program Revenue:		
Charges for services	\$15,196,419	\$12,992,787
Operating grants & contributions	120,899,344	156,020,846
Capital grants & contributions	746,880	13,129,106
Taxes:		
Levied for general purpose	62,756,470	70,420,748
Levied for debt service	14,070,993	14,426,242
Levied for other specific purposes	257,794	183,932
Other Revenue:		
Federal and State aid	316,529,512	332,531,048
Interest and investment earnings	374,303	(268,392)
Interagency	2,236,693	1,854,446
Other	2,682,079	1,992,799
Total Revenue	<u>\$535,750,487</u>	<u>\$603,283,562</u>
Expenses		
Instruction	\$371,697,277	\$391,641,157
Instruction-related services	49,492,462	52,049,676
Pupil services	54,799,919	58,896,131
General administration	27,303,817	29,173,253
Plant services	43,920,158	44,662,553
Enterprise activities	(2,381)	(1,583)
Interest on long-term liabilities	10,816,348	9,054,674
Other outgo	6,975,236	37,387,283
Total Expenses	<u>\$565,002,836</u>	<u>\$622,863,144</u>
Change in Net Position	\$(29,252,349)	\$(19,579,582)
Net Position – Beginning	707,823,754	676,874,551
Cumulative effect of change in accounting principle	(1,696,854)	-
Net Position – Ending	<u>\$676,874,551</u>	<u>\$657,294,969</u>

Financial Condition of the General Fund

In 2013/14 the State implemented the Local Control Funding Formula (LCFF). As a part of this formula the State funds the gap (in 2013/14 12% was funded) between 2012/13 actual funding (Revenue Limit, Local Property Tax and 2012/13 categorical funding) and the projected full implementation of LCFF funding in 2020/21. The district received as part of the closure of the gap \$17,056,481 or \$294.27 per ADA over 2012/13. Local Control Funding Formula income is the major component of the District's unrestricted income. The District relies on these revenues to cover cost increases for employee salaries and benefits, other fixed costs and also consider new programs from these monies. The following tables summarize fund balance changes and operational fund financial statements.

Summary of General Fund Financial Operations		
	June 30, 2013	June 30, 2014
Revenues	\$ 471,910,371	\$ 498,040,618
Expenditures	<u>(481,148,418)</u>	<u>(508,210,460)</u>
Difference	\$ (9,238,047)	\$ (10,169,842)

General Fund Change in Fund Balance			
	Restricted	Unrestricted	Total
June 30, 2013	<u>\$ 22,782,793</u>	<u>\$ 51,751,242</u>	<u>\$ 74,534,035</u>
June 30, 2014	<u>30,084,263</u>	<u>34,279,930</u>	<u>64,364,193</u>
Change	\$ 7,301,470	\$ (17,471,312)	\$ (10,169,842)

During 2013/14 District staff updated the Board of Education and stakeholders of the financial condition of the General Fund by way of routine Budget Update Reports at each of the Board of Education meetings. These updates along with other important financial news impacting the District were posted to the District's website to increase community awareness. In addition, the budget was updated to recognize changes in anticipated revenue and expenditures during interim reporting periods.

General Fund Revenues

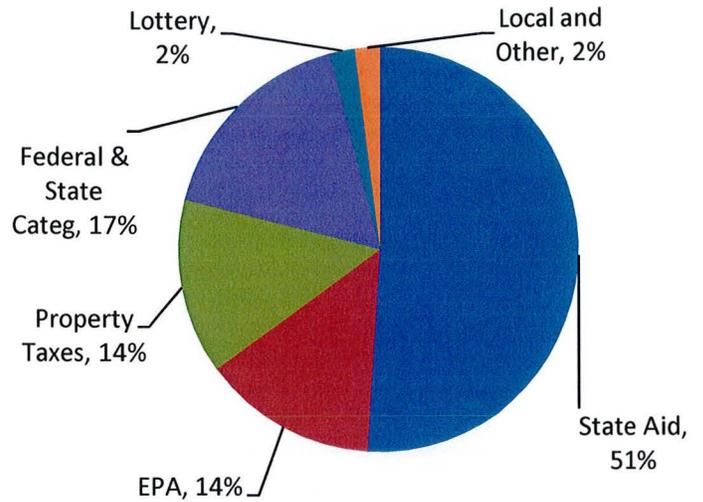
More than seventy-nine percent of the District's General Fund revenue is generated from the District's Local Control Funding Formula (LCFF). The LCFF includes State Aid and property taxes and is based on a state-determined dollar amount times the average number of students who are in attendance throughout the school year.

The other source of revenue is federal, state and local categorical income that must be spent for specific determined programs. Categorical programs amount to nineteen percent of the District's income. The largest state categorical program is funding for a portion of Special Education services.

The District's total resources for expenditures include a "beginning balance", which represents the unexpended balance from the prior year. During the 2013/14 school year, the District's total General Fund ending fund balance decreased by a little more than \$10 million.

General Fund Sources

Sources Available	
LCFF Sources	\$251,620,709
Education Protection Account	68,687,469
Property Taxes	69,862,009
Total LCFF Sources	390,170,187
Federal Revenue	30,788,152
Lottery	10,355,498
Other State Revenue	57,220,348
Local Revenue	8,463,485
Total Revenue	\$496,997,670
Beginning Fund Balance	74,534,035
Total General Fund Sources	\$571,531,705



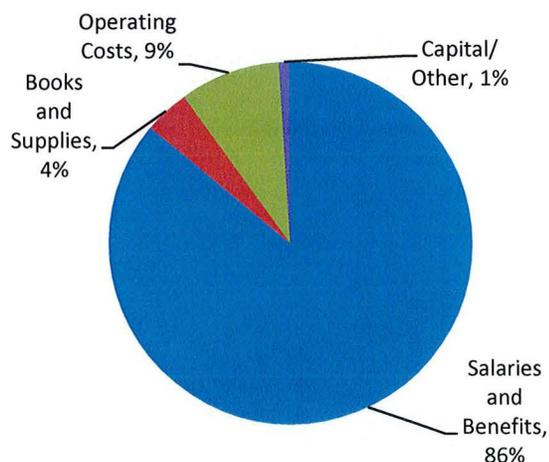
General Fund Expenditures

Employee salary and benefit costs consume 86% of the District's general fund expenditures. Expenditures that go directly to the classroom for instructional purposes amount to 68% of the District's general fund expenditures. A significant portion of California school district income is restricted income and, as such can only be expended for selected purposes as determined by the allocating agency. The balance of the District's income is unrestricted since it can be expended as determined by the local agency for general educational purposes.

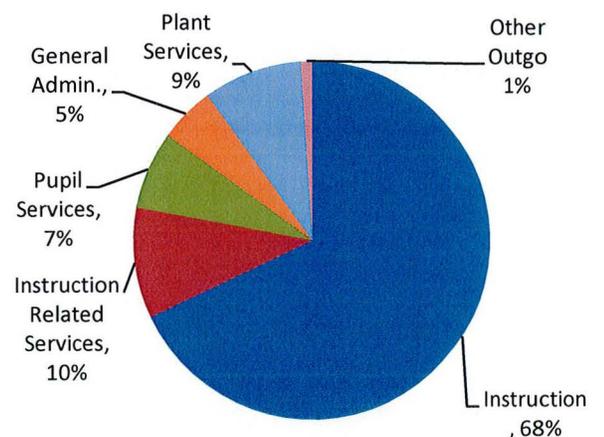
2013/14 General Fund Expenditures	
Salaries and Benefits	\$437,421,194
Books and Supplies	19,217,006
Operating Costs	45,526,908
Capital/Other	3,639,139
Total Expenditures	\$479,231,971
Restricted Ending Fund Balance	\$30,084,263
Designated Reserves*	34,279,930
Total Ending Fund Balance	\$64,364,193

* Unrestricted Ending Fund Balance is comprised of the reserve for funding priorities and the designated reserves.

General Fund Expenditure by Object



General Fund Expenditure by Function



Other Funds

In addition to the General Fund, the District also has other funds which are designed to keep track of specific revenues and expenditures and are often required by State law. Following is a summary of fund balances for all other District funds:

Fund Name	June 30, 2013 Ending Balance (amount in dollars)	June 30, 2014 Ending Balance (amount in dollars)	Change in Fund Balance (amount in dollars)
Charter School Special Revenue	\$2,802,901	\$3,028,979	\$226,078
Adult Education	2,619,973	2,243,963	(376,010)
Child Development	19,572	51,756	32,184
Cafeteria Special Revenue	5,467,526	6,083,775	616,249
Deferred Maintenance	930,426	917,573	(12,853)
Capital Facilities	22,942,789	14,648,998	(8,293,791)
State School Facilities	19,385,622	43,133,848	23,748,226
Special Reserve for Capital Outlay	260,832	1,116,590	855,758
Capital Projects	23,598,995	14,532,633	(9,066,362)
Debt Service	17,512,141	18,034,311	522,170
Self Insurance Fund	3,762,453	2,250,588	(1,511,865)

Post Retirement Employee Benefits

Elk Grove Benefits Employee Retirement Trust (EGBERT) was established on February 20, 1996, pursuant to an agreement among the bargaining units representing District employees and the District. This trust was established to provide health and welfare benefits as defined in Sections 3543.2 and 53200 of the Government Code through a Health and Welfare Plan for the retired eligible employees of the District and their eligible dependents. Participation in EGBERT is limited to District employees, their respective dependents, and board members who qualify pursuant to appropriate Education Code and Board policies. Additionally, employees who are not subject to the terms of a collective bargaining agreement but who otherwise qualify for retirement health benefits pursuant to Education Code and school district policy can participate in EGBERT.

Mello Roos and Construction of New School Facilities

Because of funding deficiencies associated with state funds and developer fees, the District, in 1987, confirmed the establishment of Elk Grove Unified School District Community Facilities District (CFD) #1 to implement a Mello-Roos Special Tax. The special tax is assessed to pay for the interest and principal repayment of issued bonds. The proceeds of the bonds are to be used for improvements to new and existing elementary, middle, and high schools and for new elementary, middle and high schools in the District and for other educational centers, support centers and improvements to school grounds. On April 28, 1987 the District passed a \$70,000,000 local bond measure to finance certain elementary and secondary school support facilities.

Due to continued growth and funding deficiencies, the District's Board of Education adopted resolutions on October 20, 1997 calling for an election to authorize the issuance of additional special tax bonds, while at the same time reconfirming CFD #1. On March 10, 1998, the registered voters within the boundaries of the District authorized the issuance of an additional \$205,000,000 principal amount of special tax bonds. The Mello-Roos funds are intended to provide a source of funds for the required matching of state funds. They also provide the funding for facility needs that are not funded by state funds or developer fees, and provide funding for modernization, deferred maintenance, additions, technology and student support services such as Transportation, Food and Nutrition Services, Police Services and Maintenance and Operations.

In November of 1998, the District issued its first series of special tax bonds pursuant to the 1998 Authorization in the principal amount of \$28,954,336. In November of 2001, November 2003, November 2005 and November of 2008 the District issued the second, third, fourth and fifth series of special tax bonds pursuant to the 1998 Authorization in the amounts of \$21,343,383, \$28,000,828, \$43,540,000 and \$31,226,133 respectively. A total of \$153,064,700 had been issued from the 1998 Authorization. On October 2, 2012, the Board approved Resolution 14, 2012-13, which authorized the issuance of the Sixth or 2012 Refunding Series bonds, not to exceed \$98,000,000. On November 13, 2012, the Board approved Resolution 21, 2012-13, which provided for the sale of \$84,065,000 Principal Amount for the 2012 Special Tax Refunding Bonds as authorized by Board Resolution 14, 2012-13. The refunding (commonly referred to as refinancing) was an opportunity for significant debt service savings that had transpired due to the fact that municipal bond rates were at historically low levels while at the same time certain outstanding bonds were callable starting December 1, 2012 for the first time in the history of EGUSD Community Facilities District #1. The 2012 Special Tax Refunding Bonds provided for the refunding the Series 1998 Bonds maturing December 1, 2013 through December 1, 2028, inclusive, the Series 2001 Bonds Maturing December 1, 2013 through December 1, 2031, inclusive, and the Series 2003 Bond maturing December 1, 2022 through December 1, 2033, inclusive, and for paying the costs of issuance of the Refunding Series 2012 Bonds. The total principal amount of outstanding special tax bonds that are repaid by the special tax levied on taxable land in the District is \$182,043,916. Over the next 4 to 7 years, the District is projecting a need to construct 3-5 new elementary schools, 1 middle school and 1 high school. The need to build these new schools depends on several variables not the least of which will be the timing of new residential development.

The majority of the District's capital assets are the land and buildings of the District with the majority of the assets being in the buildings. Buildings comprise approximately 68% of the District's capital assets. The work in progress on District buildings, i.e. modernizations as well as new construction, makes up approximately 4% of the District's capital assets. The land is approximately 22%, land improvements are 5% and equipment is 1%.

Factors Bearing on the District's Future

Following five years of the worst recession since the great depression resulting in state budget cuts that led to more than \$110 million in reductions to Elk Grove Unified School District (EGUSD), thanks to the voters' passage of Proposition 30, EGUSD is continuing to climb out of that fiscal crisis. However, uncertainty about the future of public education funding (while somewhat more positive) continues to be unpredictable due to state, national and global concerns. School districts are watching the impact of the federal budget, which very well could result in reductions to programs or a reduction in cash flows should governmental polarization lead to other budget showdowns.

Proposition 30 – The Schools and Local Public Safety Protection Act of 2012 – was successfully approved by voters on November 6, 2012, with 53.9% of the votes. Proposition 30 raises the income tax on single earnings over \$250,000 (or \$500,000 for couples) for seven years. It also increases state sales taxes by ¼ cent for four years.

For the second year in a row since state budget cuts began in 2007, EGUSD did not have to make cuts for the fiscal year 2014/2015. While EGUSD's economic outlook has improved, the District must continue to address a structural deficit, as well as plan for annual cost increases and pent-up needs following years of reductions.

The State's new funding formula for school districts called the Local Control Funding Formula (LCFF) enters its second year in 2014/15. In its most simple form, this new model includes a base grant for each student and two additional grants (the Supplemental and Concentration grants) for students of low income, English learners and foster youth. The Concentration Grant is distributed to only those school districts with a district average of 55% or higher of students of low-income, English learners, and foster youth. EGUSD qualified with a 55.91% district average.

Beginning in 2014/15 the LCFF revenue will be linked to expenditures identified in the District's Local Control Accountability Plan (LCAP). The LCAP requires stakeholder input from the community, parents, employee groups and staff. On October 21, 2014, and October 28, 2014, over 300 parents, students, staff and community members attended seven Community Budget Meetings with EGUSD Board members at seven locations throughout the district. The objectives of these meetings were to:

- Update the public on the District's progress on implementing Common Core State Standards;
- Review California's new Local Control Funding Formula; and
- Review the District's 2014/15 approved Local Control Accountability Plan central goals

As the district moves forward and gains further understanding of LCFF and its LCAP expenditure requirements, more information will be shared on the District's Budget Watch website.

A new factor that will affect the District's future budget is the requirement that all school district's increase employer contributions beginning in 2014/15 to the Public Employees (PERS) and State Teacher (STRS) retirement systems over a seven year period. The increased contributions to PERS will be 7%, or \$6 million annually at the end of the seven year period and the increased contributions to STRS will be 19.1%, or \$27 million annually at the end of the seven year period.

Other factors impacting the District's future budget include rising costs in the area of annual employee step increases, health care, increasing unfunded mandates for Pre-K special needs students, technology and fuel costs to name a few. Through negotiations an employer/employee shared cost model for health care costs was implemented for 2012/2013 with employees contributing 20% of cost and the District contributing 80% of the cost. In addition, as a result of negotiations, employees are also eligible to receive a 5% rebate by fulfilling a series of wellness items. The wellness items are part of the District's "Your Health, Your Choice – Celebrating Wellness at EGUSD" program. The program seeks to promote and support a healthy work environment, health awareness, individual responsibility for a healthy lifestyle, decreased risk of disease and enhanced quality of life for District personnel. The program provides opportunities, tools and resources that empower personnel to make healthy lifestyle choices. The program which began in 2012/2013 was possible due a partnership and one year's funding with Kaiser Permanente. The shared cost model and rebate is continuing for 2014/2015 and is expected to continue for the foreseeable future. While the sponsored wellness program did not receive funding from Kaiser Permanente in 2013/14, a District developed model was used in 2013/14 and for 2014/15 Kaiser Permanente has provided a one-time grant of \$100,000 for wellness related programs and incentives. For the 2014/2015 school year, Your Health, Your Choice will include the District developed model along with activities funded by the one-time Kaiser Permanente grant.

In 2013/14 and 2014/15 the District is spending the allocation of state funds specifically directed for the implementation of the Common Core State Standards (CCSS). With regard to the implementation of the CCSS, there are costs associated that include professional development, the purchase and/or development of instructional materials and the purchase of technology. A significant portion of these funds will be dedicated to purchasing, and installing the technology infrastructure, computers and systems in order to accommodate the new on-line testing system required by CCSS.

In Elk Grove Unified, we are preparing our students for college and careers in the 21st century. Understanding how to leverage technology in the classroom is part of that discussion. So too is connecting students with real-world experiences. The students graduating from the District will face a variety of changes such as the world of work, volatile world-wide economic ripples, the need to re-think the uses of energy, as well as the expansion of renewable energy sources and an expanding range of technology. We prepare our students to engage in this work, teach them to contribute to a better future and help them to navigate an ever-increasing interconnection of systems.

We also do this by helping our primary and intermediate students master reading, language and number sense. We teach them to learn, work and play in collaboration with each other. We introduce them to new ideas and concepts, and stretch their boundaries. Children begin to apply new knowledge acquired and instructional technology to their learning. In the upper elementary grades they begin to explore algebra and mathematical conceptualization. They begin to use scientific inquiry and they engage in social studies and community service projects.

In middle school, our students move from a more sheltered educational environment to several periods of instruction a day. They continue to build language skills and add new knowledge in a variety of subjects that prepares them to be productive in their future endeavors. It is a time when they begin to harness the passion of studies and build on their foundation for the future. Social team work, collaboration and project-based learning take greater form. Our students participate in community service, give back to society and eagerly look forward to the next step in their education.

In high school, our students continue to engage in the new three “R”s – rigor, relevance and relationships. Many add a fourth “R”: responsibility. Our students are continuing to pass the California High School Exit Exam, tackling higher mathematics and demonstrating achievement evidenced by their successes by specializing in sciences, foreign languages and performing arts. They are using communications – reading, writing and technology – to express and research old and new ideas alike. Young people are gaining a sense of team work in athletics as well as in academics. Community service and leadership roles continue to bring students from observer to participant in preparation for post-secondary experiences.

The District’s long-time commitment to connecting students with 21st century college and careers is being reinforced through a new statewide initiative – Linked Learning. EGUSD is one of 20 participating districts in this new four-and-a-half year state pilot program called “Linked Learning.” The District’s 16 California Partnership Academies and their success in connecting academics to workforce development will be part of the focus of the program’s implementation. Through Linked Learning, the district will enhance district-wide systems of support to increase access to career pathways for every student in EGUSD. The Elk Grove Unified School District also plans on serving as a model for other districts throughout California that are interested in starting or retooling their pathway programs.

BASIC FINANCIAL STATEMENTS

ELK GROVE UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 137,749,388
Receivables	78,815,388
Prepaid expenses	1,958,920
Stores inventory	1,743,685
Non-depreciable capital assets (Note 4)	177,772,416
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>511,856,130</u>
Total assets	<u>909,895,927</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding of debt	<u>455,641</u>
LIABILITIES	
Accounts payable	27,734,327
Unearned revenue	4,911,637
Unpaid claims and claim adjustment expenses (Note 5)	4,000,000
Long-term liabilities (Note 6):	
Unpaid claims and claim adjustment expenses, less current portion (Note 5)	13,881,000
Due within one year	6,726,452
Due after one year	<u>195,803,183</u>
Total liabilities	<u>253,056,599</u>
NET POSITION	
Net investment in capital assets	504,250,744
Restricted (Note 7)	131,985,189
Unrestricted	<u>21,059,036</u>
Total net position	<u>\$ 657,294,969</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Program Revenues</u>			<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental activities:					
Instruction	\$ 391,641,157	\$ 528,345	\$ 59,107,095	\$ 13,129,106	\$ (318,876,611)
Instruction-related services:					
Supervision of instruction	16,642,884	252,970	11,051,043	-	(5,338,871)
Instructional library, media and technology	2,792,753	26,379	268,503	-	(2,497,871)
School site administration	32,614,039	62,937	826,711	-	(31,724,391)
Pupil services:					
Home-to-school transportation	10,815,617	261,704	241,251	-	(10,312,662)
Food services	22,204,300	3,775,794	19,134,034	-	705,528
All other pupil services	25,876,214	263,465	9,774,061	-	(15,838,688)
General administration:					
Data processing	9,257,325	10,196	11,787,534	-	2,540,405
All other general administration	19,915,928	209,188	3,935,219	-	(15,771,521)
Plant services	44,662,553	413,957	1,669,766	-	(42,578,830)
Enterprise activities	(1,583)	-	-	-	1,583
Interest on long-term liabilities	9,054,674	-	-	-	(9,054,674)
Other outgo	<u>37,387,283</u>	<u>7,187,852</u>	<u>38,225,629</u>	<u>-</u>	<u>8,026,198</u>
Total governmental activities	<u>\$ 622,863,144</u>	<u>\$ 12,992,787</u>	<u>\$ 156,020,846</u>	<u>\$ 13,129,106</u>	<u>(440,720,405)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					70,420,748
Taxes levied for debt service					14,426,242
Taxes levied for other specific purposes					183,932
Federal and state aid not restricted to specific purposes					332,531,048
Interest and investment earnings					(268,392)
Interagency revenues					1,854,446
Miscellaneous					<u>1,992,799</u>
Total general revenues					<u>421,140,823</u>
Change in net position					(19,579,582)
Net position, July 1, 2013					<u>676,874,551</u>
Net position, June 30, 2014					<u>\$ 657,294,969</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	<u>General Fund</u>	<u>State School Facilities Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and investments:				
Cash in County Treasury	\$ 23,182,356	\$ 45,401,918	\$ 32,290,553	\$ 100,874,827
Cash with Fiscal Agent	9,823	-	22,072,616	22,082,439
Cash on hand and in banks	7,786	-	53,706	61,492
Cash in revolving fund	140,000	-	11,215	151,215
Cash awaiting deposit	2,168,640	-	339,772	2,508,412
Receivables	71,551,094	27,582	6,725,211	78,303,887
Prepaid expenditures	1,955,795	-	3,125	1,958,920
Due from other funds	1,856,596	-	2,136,406	3,993,002
Stores inventory	<u>561,055</u>	<u>-</u>	<u>1,182,630</u>	<u>1,743,685</u>
Total assets	<u>\$ 101,433,145</u>	<u>\$ 45,429,500</u>	<u>\$ 64,815,234</u>	<u>\$ 211,677,879</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 23,452,377	\$ 2,291,003	\$ 1,265,876	\$ 27,009,256
Unearned revenue	4,381,219	-	530,418	4,911,637
Due to other funds	<u>9,235,356</u>	<u>4,649</u>	<u>2,360,362</u>	<u>11,600,367</u>
Total liabilities	<u>37,068,952</u>	<u>2,295,652</u>	<u>4,156,656</u>	<u>43,521,260</u>
Fund balances:				
Nonspendable	2,656,850	-	1,196,970	3,853,820
Restricted	30,076,570	43,133,848	59,461,608	132,672,026
Assigned	20,930,773	-	-	20,930,773
Unassigned	<u>10,700,000</u>	<u>-</u>	<u>-</u>	<u>10,700,000</u>
Total fund balances	<u>64,364,193</u>	<u>43,133,848</u>	<u>60,658,578</u>	<u>168,156,619</u>
Total liabilities and fund balances	<u>\$ 101,433,145</u>	<u>\$ 45,429,500</u>	<u>\$ 64,815,234</u>	<u>\$ 211,677,879</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2014

Total fund balances - Governmental Funds \$ 168,156,619

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,121,220,043 and the accumulated depreciation is \$431,591,497 (Note 4). 689,628,546

In governmental funds, deferred outflows of resources resulting from defeasance of debt are not recorded. In governmental activities, for advance refundings resulting in defeasance of debt reported in governmental activities, the difference between reacquisition price and the net carrying amount of the retired debt are reported as deferred outflows of resources: 455,641

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2014 consisted of (Note 6):

Mello-Roos bonds	\$ (182,043,916)	
Accreted interest on bonds	(8,278,209)	
Unamortized bond premiums	(68,941)	
Unamortized bond discounts	878,869	
Supplemental Employee Retirement Plan (SERP)	(1,577,821)	
Post-retirement employee benefits (Note 9)	(1,896,903)	
Compensated absences	<u>(9,542,714)</u>	(202,529,635)

Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds. (666,790)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Net position for the Self-Insurance Fund is: 2,250,588

Total net position - governmental activities \$ 657,294,969

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

ELK GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	<u>General Fund</u>	<u>State School Facilities Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Local control funding formula:				
State apportionment	\$ 320,313,221	\$ -	\$ 1,534,851	\$ 321,848,072
Local sources	<u>69,856,966</u>	<u>-</u>	<u>-</u>	<u>69,856,966</u>
Total local control funding formula	<u>390,170,187</u>	<u>-</u>	<u>1,534,851</u>	<u>391,705,038</u>
Federal sources	30,788,152	-	23,285,737	54,073,889
Other state sources	67,147,687	13,101,524	4,702,463	84,951,674
Other local sources	<u>8,463,485</u>	<u>401,182</u>	<u>29,265,485</u>	<u>38,130,152</u>
Total revenues	<u>496,569,511</u>	<u>13,502,706</u>	<u>58,788,536</u>	<u>568,860,753</u>
Expenditures:				
Certificated salaries	259,656,564	-	4,551,302	264,207,866
Classified salaries	67,439,290	-	10,597,453	78,036,743
Employee benefits	110,325,340	-	5,926,473	116,251,813
Books and supplies	19,217,006	-	11,899,730	31,116,736
Contract services and operating expenditures	45,526,908	(90,978)	2,424,831	47,860,761
Capital outlay	2,126,059	13,713,753	1,399,080	17,238,892
Other outgo	2,556,028	19,999	379,374	2,955,401
Debt service:				
Principal retirement	-	-	3,145,966	3,145,966
Interest	<u>-</u>	<u>-</u>	<u>9,830,015</u>	<u>9,830,015</u>
Total expenditures	<u>506,847,195</u>	<u>13,642,774</u>	<u>50,154,224</u>	<u>570,644,193</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(10,277,684)</u>	<u>(140,068)</u>	<u>8,634,312</u>	<u>(1,783,440)</u>
Other financing sources (uses):				
Operating transfers in	1,471,107	37,918,606	16,210,577	55,600,290
Operating transfers out	(1,363,265)	(14,030,312)	(40,206,713)	(55,600,290)
Other financing uses	<u>-</u>	<u>-</u>	<u>(134,753)</u>	<u>(134,753)</u>
Total other financing sources (uses)	<u>107,842</u>	<u>23,888,294</u>	<u>(24,130,889)</u>	<u>(134,753)</u>
Net change in fund balances	(10,169,842)	23,748,226	(15,496,577)	(1,918,193)
Fund balances, July 1, 2013	<u>74,534,035</u>	<u>19,385,622</u>	<u>76,155,155</u>	<u>170,074,812</u>
Fund balances, June 30, 2014	<u>\$ 64,364,193</u>	<u>\$ 43,133,848</u>	<u>\$ 60,658,578</u>	<u>\$ 168,156,619</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT

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

For the Year Ended June 30, 2014

Net change in fund balances - Total Governmental Funds \$ (1,918,193)

Amounts reported for governmental activities in the statement of activities are different because:

Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net position (Note 4).	\$ 17,709,075
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(38,621,804)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net position (Note 6).	3,145,966
Accreted interest is an expense that is not recorded in the governmental funds (Note 6).	942,999
In government funds, expenses related to the Supplemental Employee Retirement Program (SERP) are measured by the amounts paid in the year. In the statement of activities, SERP is recognized on the accrual basis (Note 6).	1,577,821
Post employment benefits other than pension (OPEB) are recognized when employer contributions are made in the governmental funds, and in the statement of activities are recognized on the accrual basis (Note 6).	(1,182,315)
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	311,639
Amortization of bond issuance premiums and discounts is not recorded in the governmental funds (Note 6).	(35,649)

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT

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

For the Year Ended June 30, 2014

(Continued)

Interest on long-term liabilities is recognized in the period that it becomes due. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:	\$	20,525	
In governmental funds, deferred outflows of resources are not recognized. In the government-wide statements, deferred outflows of resources amortized over the life of the debt.		(17,781)	
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Change in net position for the Self-Insurance Fund is:		<u>(1,511,865)</u>	<u>(17,661,389)</u>
Change in net position of governmental activities			<u>\$ (19,579,582)</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
June 30, 2014

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 11,962,657
Cash on hand and in banks	108,346
Receivables	511,501
Due from other funds	<u>7,607,365</u>
 Total current assets	 <u>20,189,869</u>

LIABILITIES

Current liabilities:	
Accounts payable	58,281
Current unpaid claims and claim adjustment expenses	<u>4,000,000</u>
 Total current liabilities	 <u>4,058,281</u>
 Unpaid claims and claim adjustment expenses, less current portion	 <u>13,881,000</u>
 Total liabilities	 <u>17,939,281</u>

NET POSITION

Restricted	<u><u>\$ 2,250,588</u></u>
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The accompanying notes are an integral
part of these financial statements.

ELK GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET POSITION - PROPRIETARY FUND

SELF-INSURANCE FUND

For the Year Ended June 30, 2014

Operating revenues:	
Self-insurance premiums	<u>\$ 7,607,364</u>
Operating expenses:	
Classified salaries	195,011
Employee benefits	75,521
Books, supplies and other expenses	9,583
Provision for unpaid claims and claim adjustment expenses	<u>8,851,221</u>
Total operating expenses	<u>9,131,336</u>
Operating loss	(1,523,972)
Non-operating revenue:	
Interest income	<u>12,107</u>
Change in net position	(1,511,865)
Net position, July 1, 2013	<u>3,762,453</u>
Net position, June 30, 2014	<u><u>\$ 2,250,588</u></u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND

For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 5,880,525
Cash paid for salaries, benefits and services	(272,553)
Cash paid for claims	<u>(7,296,221)</u>
Net cash used in operating activities	(1,688,249)
Cash flows provided by investing activities:	
Interest income received	<u>12,107</u>
Decrease in cash and investments	(1,676,142)
Cash and investments, July 1, 2013	<u>13,747,145</u>
Cash and investments, June 30, 2014	<u><u>\$ 12,071,003</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ <u>(1,523,972)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in:	
Receivables and other assets	(480,934)
Due from other funds	(1,245,905)
Increase in:	
Accounts payable	7,562
Unpaid claims and claim adjustment expenses	<u>1,555,000</u>
Total adjustments	<u>(164,277)</u>
Net cash used in operating activities	<u><u>\$ (1,688,249)</u></u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST AND AGENCY FUNDS
June 30, 2014

	<u>Trust Fund Scholarship Fund</u>	<u>Agency Fund Student Body</u>
ASSETS		
Cash on hand and in banks (Note 2)	\$ 56,176	\$ 4,665,716
Stores inventory	<u>-</u>	<u>50,805</u>
Total assets	<u>56,176</u>	<u>4,716,521</u>
LIABILITIES		
Due to students/student groups	<u>-</u>	<u>4,716,521</u>
NET POSITION		
Restricted (Note 7)	<u>\$ 56,176</u>	<u>\$ -</u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
TRUST FUND
For the Year Ended June 30, 2014

	Scholarship Fund
<p>Additions:</p> <p style="padding-left: 20px;">Other local sources</p>	<p>\$ 15,318</p>
<p>Deductions:</p> <p style="padding-left: 20px;">Contract services and operating expenditures</p>	<p><u>12,479</u></p>
Change in net position	2,839
Net position, July 1, 2013	<u>53,337</u>
Net position, June 30, 2014	<u><u>\$ 56,176</u></u>

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

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Elk Grove Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the Elk Grove Unified School District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board Codification Section 2100. The three criteria for requiring a legally separate organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion.

The District and Elk Grove Unified School District Community Facilities District No. 1 (the "Facilities District") have a financial and operational relationship such that the Facilities District is included as a blended component unit of the District. Therefore, the financial activities of the Facilities District have been included in the financial statements of the District (see Note 12).

Basis of Presentation - Financial Statements

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

Basis of Presentation - Government-Wide Financial Statements

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

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Basis of Presentation - Fund Accounting

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

A - Major Funds

1 - General Fund:

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

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Major Funds (Continued)

2 - State School Facilities Fund:

The State School Facilities Fund is designated to account for resources used for the acquisition or construction of major capital facilities and equipment.

B - Other Funds:

1 - Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. This includes the Charter Schools, Adult Education, Child Development, Cafeteria and Deferred Maintenance Funds.

2 - Capital Projects Funds:

Capital Projects Funds are used to account for resources used for the acquisition or construction of major capital facilities and equipment. This includes the Capital Facilities, Special Reserve for Capital Outlay and Capital Projects Funds.

3 - Mello-Roos Administrative Fund:

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

4 - Self-Insurance Fund:

The Self-Insurance Fund is an Internal Service Fund used to account for services rendered on a cost-reimbursement basis within the District to provide workers' compensation benefits to District employees.

5 - Expendable Trust Funds:

The Expendable Trust Fund is used to account for assets held by the District as Trustee. The District maintains one trust fund: the Scholarship Fund, which is used to provide financial assistance to students of the District.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

B - Other Funds: (Continued)

6 - Student Body Funds:

Student Body Funds are Agency Funds used to account for the various funds for which the District has an agency relationship with the activity of the fund. The Student Body Funds account for the receipt and disbursement of monies from the student activity organizations.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

A - Accrual

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

B - Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible in the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting

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

Receivables

Receivables are made up principally of amounts due from the State of California for Local Control Funding Formula funding and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2014.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stores Inventory

Inventory is stated at cost (average cost) which does not exceed replacement cost. Inventory consists of expendable supplies held for future use in the following period by the District's operating units, transportation supplies, and food held for consumption. Maintenance and other supplies held for physical plant repair are not included in inventory; rather, these amounts are recorded as expenditures when purchased.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$10,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Amortization for the year ended June 30, 2014 totaled \$17,781.

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

Compensated Absences

Compensated absences benefits totaling \$9,542,714 are recorded as a liability of the District.

Accumulated Sick Leave

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

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenue

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

Restricted Net Position

Restrictions of the ending net position indicate the portions of net position not appropriable for expenditure or amounts legally segregated for a specific future use. The restriction for unspent categorical program revenues represents the portion of net position restricted to specific program expenditures. The restrictions for special revenues, capital projects and debt service represents the portion of net position restricted for those special purposes. The restriction for self-insurance represents the portion of net position restricted for self-insured workers' compensation claims. The restriction for scholarships represents net position which is to be used to provide financial assistance to students of the District. It is the District's policy to use restricted net position first, when allowable expenditures are incurred.

Fund Balance Classifications

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

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

B - Restricted Fund Balance:

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net position as reported in the government-wide and fiduciary trust fund statements.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

C - Committed Fund Balance:

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2014, the District had no committed fund balances.

D - Assigned Fund Balance:

The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel within the District to assign fund balances, however, as of June 30, 2014, no such designation has occurred.

E - Unassigned Fund Balance:

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

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

Fund Balance Policy

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

While GASB Cod. Sec. 1300 and 1800 do not require Districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2014, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Custodial Relationships

The Statement of Net Position for Fiduciary Funds represents the assets, liabilities and trust and agency accounts of various student organizations and scholarship funds within the District. As the funds are custodial in nature, no measurement of operating results is involved.

Property Taxes

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

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 66, Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 61. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 64, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, Districts should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

In June 2012, the GASB issued Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

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

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

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>
Cash:		
Cash in County Treasury	\$ 112,837,484	\$ -
Cash with Fiscal Agent	22,082,439	-
Cash on hand and in banks	169,838	4,721,892
Revolving cash fund	151,215	-
Cash awaiting deposit	<u>2,508,412</u>	<u>-</u>
Total cash	<u>\$ 137,749,388</u>	<u>\$ 4,721,892</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS (Continued)

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Sacramento County Treasury. Cash in Sacramento County Treasury consists of cash deposited in the interest-bearing Sacramento County Treasurer's Pooled Surplus Investment Fund. Investments are recorded at cost which approximates fair value. Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classification is required. The District's deposits in the Fund are considered to be highly liquid. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The Sacramento County Treasurer has indicated there are no derivatives in the pool as of June 30, 2014.

Cash with Fiscal Agent

Cash with Fiscal Agent represents amounts held in the District's name with third party custodians, primarily for debt service and capital expenditures.

Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2014, the carrying amount of the District's accounts was \$5,042,945 and the bank balance was \$5,377,200. \$750,841 of the bank balance was FDIC insured and \$4,626,359 remained uninsured, but collateralized.

Investment Interest Rate Risk

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

Investment Credit Risk

The District has adopted the County Treasurer's formal investment policy that limits its investment choices other than the limitations of state law.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. INTERFUND TRANSACTIONS

Interfund Activity

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

Interfund Receivables/Payables

Interfund receivable and payable balances at June 30, 2014 were as follows:

Fund	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 1,856,596	\$ 9,235,356
State School Facilities	-	4,649
Non-Major Funds:		
Charter Schools	-	1,940
Adult Education	1,077,088	336,543
Child Development	154,965	345,230
Cafeteria	836,201	1,475,513
Capital Facilities	173	4,224
Special Reserve for Capital Outlay	67,979	181,145
Capital Projects	-	15,767
Proprietary Fund:		
Self-Insurance	7,607,365	-
Total	<u>\$ 11,600,367</u>	<u>\$ 11,600,367</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

Interfund transfers for the 2013-2014 fiscal year were as follows:

Transfer from the General Fund to the Adult Education Fund for contributions.	\$ 800,000
Transfer from the General Fund to the Adult Education Fund for contributions to the Community Based English Tutoring Program.	277,088
Transfer from the General Fund to the Child Development Fund for Cal-Safe Child Care funding.	160,592
Transfer from the General Fund to the Cafeteria Fund for contributions.	77,012
Transfer from the General Fund to the Child Development Fund for contributions.	48,573
Transfer from the State School Facilities Fund to Capital Projects Fund to refund advances for Marion Mix Elementary project	13,363,039
Transfer from State School Facilities Fund to the Capital Facilities Fund to return unspent funds for the Office of Public School Education and Elk Grove Charter projects.	667,273
Transfer from the Adult Education Fund to the General Fund for indirect costs.	175,395
Transfer from the Child Development Fund to the General Fund for indirect costs.	196,772
Transfer from Capital Projects Fund to State School Facilities Fund for construction projects.	20,631,606
Transfer from Capital Facilities Fund to State School Facilities Fund to augment construction at Anatolia Elementary, Dillard Elementary, and Florin Vineyard Elementary.	17,287,000
Transfer from the Cafeteria Fund to the General Fund for indirect costs.	1,098,940
Transfer from the Mello-Roos Administrative Fund to the Capital Projects Fund for excess special tax monies.	<u>817,000</u>
	<u>\$ 55,600,290</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2014 is shown below:

	Balance July 1, <u>2013</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Balance June 30, <u>2014</u>
Non-depreciable:				
Land	\$ 151,592,681	\$ -	\$ -	\$ 151,592,681
Work in progress	12,995,144	14,138,950	(954,359)	26,179,735
Depreciable:				
Improvement of sites	55,172,972	959,014	-	56,131,986
Buildings	855,305,135	1,271,509	-	856,576,644
Equipment	<u>27,920,549</u>	<u>2,293,961</u>	<u>(524,487)</u>	<u>29,690,023</u>
Totals, at cost	<u>1,102,986,481</u>	<u>18,663,434</u>	<u>(1,478,846)</u>	<u>1,120,171,069</u>
Less accumulated depreciation:				
Improvement of sites	(18,694,906)	(2,759,606)	-	(21,454,512)
Buildings	(352,931,106)	(34,237,660)	-	(387,168,766)
Equipment	<u>(20,819,194)</u>	<u>(1,624,538)</u>	<u>524,487</u>	<u>(21,919,245)</u>
Total accumulated depreciation	<u>(392,445,206)</u>	<u>(38,621,804)</u>	<u>524,487</u>	<u>(430,542,523)</u>
Capital assets, net	<u>\$ 710,541,275</u>	<u>\$ (19,958,370)</u>	<u>\$ (954,359)</u>	<u>\$ 689,628,546</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	<u>\$ 38,621,804</u>
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At June 30, 2014, the District had outstanding construction contract commitments of approximately \$8 million.

5. SELF-INSURANCE

The District is self-insured for workers' compensation, dental and vision claims. For accounting and reporting purposes, the District has established a separate Self-Insurance Fund for workers' compensation. For the year ended June 30, 2014, the District provides coverage up to a maximum of \$500,000 for each workers' compensation claim. The District participates in a public entity risk pool for claims in excess of coverage provided by the Fund (Note 11). In fiscal year 2013-14 settled claims did not exceed the coverage level provided by the Fund and no claims were made of the excess coverage.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. SELF-INSURANCE (Continued)

The claims liability of \$17,881,000 at June 30, 2014 was actuarially determined based on the requirements of Governmental Accounting Standards Statement No. 10. This liability was discounted using an expected future investment yield assumption of 3 percent.

Changes in the District's unpaid claims and claim adjustment expenses for the years ended June 30, 2014, June 30, 2013 and June 30, 2012 were as follows:

	Unpaid Claims and Claim Adjustment Expenses July 1	Incurred Claims	Claims Payments	Unpaid Claims and Claim Adjustment Expenses June 30
2013/2014	<u>\$ 16,326,000</u>	<u>\$ 8,851,221</u>	<u>\$ (7,296,221)</u>	<u>\$ 17,881,000</u>
2012/2013	<u>\$ 15,263,000</u>	<u>\$ 5,149,287</u>	<u>\$ (4,086,287)</u>	<u>\$ 16,326,000</u>
2011/2012	<u>\$ 14,331,000</u>	<u>\$ 7,311,104</u>	<u>\$ (6,379,104)</u>	<u>\$ 15,263,000</u>

6. LONG-TERM LIABILITIES

Mello-Roos Bonds Payable

A summary of Mello-Roos Bonds payable at June 30, 2014 follows:

<u>Series</u>	<u>Interest Rate</u>	<u>Original Maturity</u>	<u>Balance July 1, 2013</u>	<u>Current Year Issuance</u>	<u>Current Year Maturities</u>	<u>Balance June 30, 2014</u>
1995	4.0 - 6.5%	2024	\$ 17,663,748	\$ -	\$ 890,966	\$ 16,772,782
2003	2.1 - 4.6%	2033	12,015,001	-	1,130,000	10,885,001
2005	4.0 - 4.6%	2035	40,220,000	-	565,000	39,655,000
2008	6.75%	2038	31,226,133	-	-	31,226,133
2012	.50 - 4.05%	2033	<u>84,065,000</u>	<u>-</u>	<u>560,000</u>	<u>83,505,000</u>
			<u>\$185,189,882</u>	<u>\$ -</u>	<u>\$ 3,145,966</u>	<u>\$182,043,916</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

Mello-Roos Bonds Payable (Continued)

The Series 1995, 1998, 2001, 2003, 2005, 2008, and 2012 Serial Bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from the proceeds of an annual Special Tax to be levied and collected from property within the District or from escrow accounts in the case of refunding bonds. The Special Tax is to be levied according to the rate and method of apportionment determined by a formula approved by the Board, as the legislative body of the District, and by the registered voters within the District (see Note 12).

The annual requirements to amortize the Mello-Roos Bonds payable outstanding as of June 30, 2014 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,251,728	\$ 9,808,002	\$ 13,059,730
2016	3,267,455	9,787,377	13,054,832
2017	3,302,171	9,749,068	13,051,239
2018	3,333,302	9,714,255	13,047,557
2019	3,388,126	9,659,694	13,047,820
2020-2024	30,715,000	34,056,960	64,771,960
2025-2029	37,545,000	27,301,099	64,846,099
2030-2034	44,430,000	20,213,054	64,643,054
2035-2038	<u>52,811,134</u>	<u>13,985,123</u>	<u>66,796,257</u>
	<u>\$ 182,043,916</u>	<u>\$ 144,274,632</u>	<u>\$ 326,318,548</u>

Supplemental Employee Retirement Plan Liability

During 2010, the District provided the option of a one-time Supplemental Employee Retirement Plan ("SERP") to District employees. There were 151 employees who elected to participate in the Plan. Employees under the SERP will receive monthly annuity benefits. The District is obligated to pay annual installments for the calculated benefits for employees under the SERP and for the administration of the plan, as follows:

Year Ending <u>June 30,</u>	
2015	<u>\$ 1,577,821</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

Schedule of Changes in Long-Term Liabilities

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

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	June 30, <u>2014</u>	Amounts Due Within <u>One Year</u>
Mello-Roos bonds	\$ 185,189,882	\$ -	\$ 3,145,966	\$ 182,043,916	\$ 3,251,728
Accreted Interest on bonds	9,221,208	846,035	1,789,034	8,278,209	-
Unamortized bond premiums	72,224	-	3,283	68,941	-
Unamortized bond discounts	(917,801)	-	(38,932)	(878,869)	-
Supplemental Employee Retirement Plan	3,155,642	-	1,577,821	1,577,821	1,577,821
Post-retirement employee benefits (Note 9)	714,588	1,182,315	-	1,896,903	1,896,903
Compensated absences	<u>9,854,353</u>	<u>-</u>	<u>311,639</u>	<u>9,542,714</u>	<u>-</u>
Totals	<u>\$ 207,290,096</u>	<u>\$ 2,028,350</u>	<u>\$ 6,788,811</u>	<u>\$ 202,529,635</u>	<u>\$ 6,726,452</u>

Payments on the Mello-Roos bonds are made from the Mello-Roos Administrative Fund. Premiums and discounts on bonds are amortized over the life of the related bonds. Payments on the supplemental employee retirement plan, post-retirement employee benefits and compensated absences are made from the fund for which the related employee worked.

7. NET POSITION / FUND BALANCES

Restricted net position consisted of the following at June 30, 2014:

	<u>Governmental Funds</u>
Restricted for unspent categorical program revenues	\$ 30,076,570
Restricted for special revenues	12,326,046
Restricted for capital projects	69,297,674
Restricted for debt service	18,034,311
Restricted for self-insurance	<u>2,250,588</u>
	<u>\$ 131,985,189</u>
	<u>Fiduciary Funds</u>
Restricted for scholarships	<u>\$ 56,176</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. NET POSITION / FUND BALANCES (Continued)

Fund balances, by category, at June 30, 2014 consisted of the following:

	General <u>Fund</u>	State School Facilities <u>Fund</u>	All Non-Major <u>Funds</u>	<u>Total</u>
Nonspendable:				
Revolving cash fund	\$ 140,000	\$ -	\$ 11,215	\$ 151,215
Prepaid expenditures	1,955,795	-	3,125	1,958,920
Stores inventory	<u>561,055</u>	<u>-</u>	<u>1,182,630</u>	<u>1,743,685</u>
Subtotal nonspendable	<u>2,656,850</u>	<u>-</u>	<u>1,196,970</u>	<u>3,853,820</u>
Restricted:				
Unspent categorical revenues	30,076,570	-	-	30,076,570
Special Revenue	-	-	11,131,776	11,131,776
Capital Projects	-	43,133,848	30,295,521	73,429,369
Debt Service	<u>-</u>	<u>-</u>	<u>18,034,311</u>	<u>18,034,311</u>
Subtotal restricted	<u>30,076,570</u>	<u>43,133,848</u>	<u>59,461,608</u>	<u>132,672,026</u>
Assigned:				
Reserve for Future Year Deficits	<u>20,930,773</u>	<u>-</u>	<u>-</u>	<u>20,930,773</u>
Unassigned:				
Designated for economic uncertainty	<u>10,700,000</u>	<u>-</u>	<u>-</u>	<u>10,700,000</u>
Total fund balances	<u>\$ 64,364,193</u>	<u>\$ 43,133,848</u>	<u>\$ 60,658,578</u>	<u>\$ 168,156,619</u>

8. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members enrolled prior to January 1, 2013 are required to contribute 7% of their salary. Active plan members enrolled on or after January 1, 2013 are required to contribute 6% of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2013 and 2014 were \$6,812,754, \$7,551,268 and \$8,341,075 respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2013-2014 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2012, 2013 and 2014 were \$18,379,420, \$20,132,770 and \$20,948,245 respectively, and equal 100% of the required contributions for each year. On June 24, 2014 the Governor signed Assembly Bill 1469 which will increase the member contribution to 19.1% over the next seven years.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. POST-RETIREMENT EMPLOYEE BENEFITS

Plan Description

In addition to the pension benefits described in Note 8, the District provides post-retirement health care benefits to all District employees who retired from the District prior to July 1, 2000 with ten years of service, and who immediately entered retirement status with STRS or PERS. As of June 30, 2014, 367 retirees are receiving these benefits. For these retired employees, the District pays the insurance premiums for the lowest cost health plan for the retiree and one dependent.

Funding Policy

Expenditures for post-employment health care benefits are recognized as the premiums are paid. During the year ended June 30, 2014, expenditures of \$1,105,529 were recognized for post-employment health care benefits.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment 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 Cod. Sec. P50.108-109. 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 related to the District provided plan:

Annual required contribution	\$ 2,276,151
Interest on net OPEB obligation	11,693
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	2,287,844
Contributions made	<u>(1,105,529)</u>
Increase in net OPEB obligation	1,182,315
Net OPEB obligation - beginning of year	<u>714,588</u>
Net OPEB obligation - end of year	<u>\$ 1,896,903</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

9. POST-RETIREMENT EMPLOYEE BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2014 and the preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 2,287,844	94%	\$ 518,424
June 30, 2013	\$ 2,287,844	91%	\$ 714,588
June 30, 2014	\$ 2,287,844	48%	\$ 1,896,903

Funded Status and Funding Progress

Because this plan is frozen, the District has not obtained a current actuarial valuation. As of November 1, 2006, the most recent actuarial valuation date, the plan was funded on a pay-as-you-go basis. The actuarial accrued liability for benefits was \$33.3 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$33.3 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the November 1, 2006 actuarial valuation, the actuarial assumptions included an annual healthcare cost trend rate of 4 percent and a 3 percent inflation assumption. The UAAL is being amortized as a flat dollar amount over twenty-four years.

See required supplementary information following the notes to the basic financial statements, which presents multi-year trend information on whether assets are increasing or decreasing over time relative to plan liabilities.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. ELK GROVE BENEFITS EMPLOYEE RETIREMENT TRUST

Plan Description

Elk Grove Benefits Employee Retirement Trust (EGBERT) was established February 20, 1996 as an irrevocable trust pursuant to an agreement by and between the Elk Grove Education Association, the American Federation of State, County and Municipal Employees, the Amalgamated Transit Union, the Psychologists and Social Workers Association and Elk Grove Unified School District. EGBERT was established to provide health and welfare benefits as defined in Sections 3543.2 and 53200 of the Government Code through a Health and Welfare Plan (Plan) for the retired eligible employees of the District and their eligible dependents on an insured or self-funded basis through a trust qualified as non-profit under Section 501(c)(9) of the Internal Revenue Code.

Participation in EGBERT is limited to District employees and District board members who qualify pursuant to appropriate board policies, and their respective dependents. Additionally, District employees who are not subject to the terms of a collective bargaining agreement, but who otherwise qualify for retirement health benefits pursuant to District policy, can participate in EGBERT.

Health care benefits consist of medical, dental and vision insurance coverage. Under the current agreement, EGBERT will provide lifetime health care benefits for qualified retired employees of the District who retire on or after July 1, 2000.

See Elk Grove Benefits Employee Retirement Trust audited financial statements for the year ended December 31, 2013 for more discussion of EGBERT. A copy of the audited financial statements can be obtained from EGBERT at 9297 Office Park Circle, Suite 110, Elk Grove, California, 95758.

11. JOINT POWERS AGREEMENTS

CSAC Excess Insurance Authority

The District is a member with other school districts of a Joint Powers Agreement, CSAC Excess Insurance Authority, for the operation of a common risk management and insurance program for workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The following is a summary of financial information of CSAC Excess Insurance Authority at June 30, 2014:

Total assets	\$ 588,152,525
Total liabilities	\$ 469,537,129
Total net position	\$ 118,615,396
Total revenue	\$ 538,524,288
Total expenses	\$ 525,460,712

The relationship between the District and the Joint Powers Authority is such that the Joint Powers Authority is not a component unit of the District for financial reporting purposes.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

11. JOINT POWERS AGREEMENTS (Continued)

Schools Insurance Authority

The District is a member with other school districts of a Joint Powers Agreement, Schools Insurance Authority, for the operation of a common risk management and insurance program for property and liability coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The following is a summary of financial information of Schools Insurance Authority at June 30, 2014, the most current information available:

Total assets	\$ 113,740,483
Total liabilities	\$ 48,361,972
Total net position	\$ 65,378,511
Total revenue	\$ 41,969,923
Total expenses	\$ 39,001,607

The relationship between the District and the Joint Powers Authority is such that the Joint Powers Authority is not a component unit of the District for financial reporting purposes.

12. ELK GROVE UNIFIED SCHOOL DISTRICT COMMUNITY FACILITIES DISTRICT NO. 1

At an election held April 28, 1987 pursuant to the Mello-Roos Community Facilities act of 1982 of the California Government Code, registered voters within the boundaries of the District authorized the issuance of \$70,000,000 principal amount of special tax bonds ("the Bonds") to finance certain elementary and secondary school facilities, including classroom and related buildings, student transportation equipment, and student support facilities, and also approved a maximum rate and method of apportionment of a special tax to pay for the principal and interest on the Bonds. At a subsequent election held on March 10, 1998, registered voters within the boundaries of the District authorized the issuance of an additional \$205,000,000 principal amount of special tax bonds for the same purposes, and approved a maximum tax rate and method of apportionment of a special tax to pay for the principal and interest on bonds issued (see Note 6).

The County of Sacramento acts as agent for the District in collecting taxes, which are forwarded to the District for debt service and included in the County's agency funds with a corresponding liability recognized for the amounts due to the Facilities District bondholders. Construction projects are recorded in the District's capital project funds.

13. CONTINGENCIES

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

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

REQUIRED SUPPLEMENTARY INFORMATION

ELK GROVE UNIFIED SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2014

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Local control funding formula:				
State apportionment	\$ 279,000,601	\$ 317,919,611	\$ 320,313,221	\$ 2,393,610
Local sources	<u>60,735,585</u>	<u>71,047,673</u>	<u>69,856,966</u>	<u>(1,190,707)</u>
Total local control funding formula	<u>339,736,186</u>	<u>388,967,284</u>	<u>390,170,187</u>	<u>1,202,903</u>
Federal sources	29,181,402	38,983,288	30,788,152	(8,195,136)
Other state sources	98,886,608	66,303,215	67,147,687	844,472
Other local sources	<u>6,369,898</u>	<u>13,074,737</u>	<u>8,463,485</u>	<u>(4,611,252)</u>
Total revenues	<u>474,174,094</u>	<u>507,328,524</u>	<u>496,569,511</u>	<u>(10,759,013)</u>
Expenditures:				
Certificated salaries	243,932,627	262,621,411	259,656,564	2,964,847
Classified salaries	59,237,708	66,947,547	67,439,290	(491,743)
Employee benefits	113,269,552	117,147,828	110,325,340	6,822,488
Books and supplies	21,996,737	37,093,387	19,217,006	17,876,381
Contract services and operating expenditures	41,236,246	47,897,413	45,526,908	2,370,505
Capital outlay	482,723	1,812,821	2,126,059	(313,238)
Other outgo	<u>485,896</u>	<u>347,390</u>	<u>2,556,028</u>	<u>(2,208,638)</u>
Total expenditures	<u>480,641,489</u>	<u>533,867,797</u>	<u>506,847,195</u>	<u>27,020,602</u>
Deficiency of revenues under expenditures	<u>(6,467,395)</u>	<u>(26,539,273)</u>	<u>(10,277,684)</u>	<u>16,261,589</u>
Other financing sources (uses):				
Operating transfers in	-	-	1,471,107	1,471,107
Operating transfers out	<u>1,705,797</u>	<u>1,896,179</u>	<u>(1,363,265)</u>	<u>(3,259,444)</u>
Total other financing sources (uses)	<u>1,705,797</u>	<u>1,896,179</u>	<u>107,842</u>	<u>(1,788,337)</u>
Net change in fund balance	(4,761,598)	(24,643,094)	(10,169,842)	14,473,252
Fund balance, July 1, 2013	<u>74,534,035</u>	<u>74,534,035</u>	<u>74,534,035</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ 69,772,437</u>	<u>\$ 49,890,941</u>	<u>\$ 64,364,193</u>	<u>\$ 14,473,252</u>

See accompanying notes to required supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS

For the Year Ended June 30, 2014

<u>Schedule of Funding Progress</u>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
<u>Pre-2000 Plan</u>						
November 1, 2006	\$ -	\$33.3 million	\$33.3 million	0%	\$ -	0%

Only one year of actuarial valuation data is provided because the District has only had one valuation performed.

See accompanying notes to required supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Budgetary Comparison Schedule

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

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

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Classified salaries	\$ 491,743
Classified salaries	\$ 313,238

These excesses are not in accordance with education Code 42600.

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

SUPPLEMENTARY INFORMATION

ELK GROVE UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2014

	<u>Charter Schools Fund</u>	<u>Adult Education Fund</u>	<u>Child Develop- ment Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve for Capital Outlay Fund</u>	<u>Capital Projects Fund</u>	<u>Mello-Ross Adminis- trative Fund</u>	<u>Total</u>
ASSETS										
Cash in County Treasury	\$ 2,883,227	\$ 565,012	\$ 17,304	\$ 1,432,015	\$ 916,713	\$ 14,716,511	\$ 1,229,091	\$ 10,436,965	\$ 93,715	\$ 32,290,553
Cash with Fiscal Agent	-	-	-	-	-	-	-	4,134,395	17,938,221	22,072,616
Cash on hand and in banks	-	9,559	-	44,147	-	-	-	-	-	53,706
Cash in revolving fund	-	-	-	11,215	-	-	-	-	-	11,215
Cash awaiting deposit	-	31,600	-	474	-	307,688	-	10	-	339,772
Receivables	269,507	1,131,652	562,086	4,683,932	860	20,373	665	53,761	2,375	6,725,211
Prepaid expenditures	-	-	-	425	-	-	-	2,700	-	3,125
Due from other funds	-	1,077,088	154,965	836,201	-	173	67,979	-	-	2,136,406
Stores inventory	-	-	-	1,182,630	-	-	-	-	-	1,182,630
Total assets	<u>\$ 3,152,734</u>	<u>\$ 2,814,911</u>	<u>\$ 734,355</u>	<u>\$ 8,191,039</u>	<u>\$ 917,573</u>	<u>\$ 15,044,745</u>	<u>\$ 1,297,735</u>	<u>\$ 14,627,831</u>	<u>\$ 18,034,311</u>	<u>\$ 64,815,234</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	\$ 121,315	\$ 234,405	\$ 193,592	\$ 617,350	\$ -	\$ 19,783	\$ -	\$ 79,431	\$ -	\$ 1,265,876
Unearned revenue	500	-	143,777	14,401	-	371,740	-	-	-	530,418
Due to other funds	1,940	336,543	345,230	1,475,513	-	4,224	181,145	15,767	-	2,360,362
Total liabilities	<u>123,755</u>	<u>570,948</u>	<u>682,599</u>	<u>2,107,264</u>	<u>-</u>	<u>395,747</u>	<u>181,145</u>	<u>95,198</u>	<u>-</u>	<u>4,156,656</u>
Fund balances:										
Nonspendable	-	-	-	1,194,270	-	-	-	2,700	-	1,196,970
Restricted	3,028,979	2,243,963	51,756	4,889,505	917,573	14,648,998	1,116,590	14,529,933	18,034,311	59,461,608
Total fund balances	<u>3,028,979</u>	<u>2,243,963</u>	<u>51,756</u>	<u>6,083,775</u>	<u>917,573</u>	<u>14,648,998</u>	<u>1,116,590</u>	<u>14,532,633</u>	<u>18,034,311</u>	<u>60,658,578</u>
Total liabilities and fund balances	<u>\$ 3,152,734</u>	<u>\$ 2,814,911</u>	<u>\$ 734,355</u>	<u>\$ 8,191,039</u>	<u>\$ 917,573</u>	<u>\$ 15,044,745</u>	<u>\$ 1,297,735</u>	<u>\$ 14,627,831</u>	<u>\$ 18,034,311</u>	<u>\$ 64,815,234</u>

ELK GROVE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
ALL NON-MAJOR FUNDS
For the Year Ended June 30, 2014

	<u>Charter Schools Fund</u>	<u>Adult Education Fund</u>	<u>Child Develop- ment Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Capital Facilities Fund</u>	<u>Special Reserve for Capital Outlay Fund</u>	<u>Capital Projects Fund</u>	<u>Mello-Ross Adminis- trative Fund</u>	<u>Total</u>
Revenues:										
Local control funding formula:										
State apportionment	\$ 1,534,851	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,534,851
Federal sources	-	1,493,154	2,989,963	18,802,620	-	-	-	-	-	23,285,737
Other state sources	398,712	752,439	1,313,814	1,375,831	6,573	-	855,094	-	-	4,702,463
Other local sources	<u>2,771</u>	<u>1,097,637</u>	<u>537,142</u>	<u>4,059,659</u>	<u>859</u>	<u>8,733,974</u>	<u>664</u>	<u>382,875</u>	<u>14,449,904</u>	<u>29,265,485</u>
Total revenues	<u>1,936,334</u>	<u>3,343,230</u>	<u>4,840,919</u>	<u>24,238,110</u>	<u>7,432</u>	<u>8,733,974</u>	<u>855,758</u>	<u>382,875</u>	<u>14,449,904</u>	<u>58,788,536</u>
Expenditures:										
Certificated salaries	1,071,129	1,712,924	1,767,249	-	-	-	-	-	-	4,551,302
Classified salaries	142,957	1,048,411	1,003,666	7,308,043	-	83,751	-	1,010,625	-	10,597,453
Employee benefits	297,084	890,940	1,016,023	3,309,964	-	35,343	-	377,119	-	5,926,473
Books and supplies	131,968	418,443	177,951	11,098,019	-	41,214	-	32,135	-	11,899,730
Contract services and operating expenditures	67,118	550,215	856,239	660,964	20,285	64,183	-	205,827	-	2,424,831
Capital outlay	-	-	-	222,943	-	183,547	-	992,590	-	1,399,080
Other outgo	-	-	-	-	-	-	-	379,374	-	379,374
Debt service:										
Principal retirement interest	-	-	-	-	-	-	-	-	3,145,966	3,145,966
	-	-	-	-	-	-	-	-	9,830,015	9,830,015
Total expenditures	<u>1,710,256</u>	<u>4,620,933</u>	<u>4,821,128</u>	<u>22,599,933</u>	<u>20,285</u>	<u>408,038</u>	<u>-</u>	<u>2,997,670</u>	<u>12,975,981</u>	<u>50,154,224</u>
Excess (deficiency) of revenues over (under) expenditures	<u>226,078</u>	<u>(1,277,703)</u>	<u>19,791</u>	<u>1,638,177</u>	<u>(12,853)</u>	<u>8,325,936</u>	<u>855,758</u>	<u>(2,614,795)</u>	<u>1,473,923</u>	<u>8,634,312</u>
Other financing sources (uses):										
Operating transfers in	-	1,077,088	209,165	77,012	-	667,273	-	14,180,039	-	16,210,577
Operating transfers out	-	(175,395)	(196,772)	(1,098,940)	-	(17,287,000)	-	(20,631,606)	(817,000)	(40,206,713)
Other financing uses	-	-	-	-	-	-	-	-	(134,753)	(134,753)
Total other financing sources (uses)	<u>-</u>	<u>901,693</u>	<u>12,393</u>	<u>(1,021,928)</u>	<u>-</u>	<u>(16,619,727)</u>	<u>-</u>	<u>(6,451,567)</u>	<u>(951,753)</u>	<u>(24,130,889)</u>
Net change in fund balances	226,078	(376,010)	32,184	616,249	(12,853)	(8,293,791)	855,758	(9,066,362)	522,170	(15,496,577)
Fund balances, July 1, 2013	<u>2,802,901</u>	<u>2,619,973</u>	<u>19,572</u>	<u>5,467,526</u>	<u>930,426</u>	<u>22,942,789</u>	<u>260,832</u>	<u>23,598,995</u>	<u>17,512,141</u>	<u>76,155,155</u>
Fund balances, June 30, 2014	<u>\$ 3,028,979</u>	<u>\$ 2,243,963</u>	<u>\$ 51,756</u>	<u>\$ 6,083,775</u>	<u>\$ 917,573</u>	<u>\$ 14,648,998</u>	<u>\$ 1,116,590</u>	<u>\$ 14,532,633</u>	<u>\$ 18,034,311</u>	<u>\$ 60,658,578</u>

ELK GROVE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS

For the Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Student Body Funds</u>				
<u>Elk Grove High School</u>				
Assets:				
Cash on hand and in banks	\$ 340,163	\$ 1,031,370	\$ 1,060,335	\$ 311,198
Inventory	6,137	55,759	61,896	-
	<u>\$ 346,300</u>	<u>\$ 1,087,129</u>	<u>\$ 1,122,231</u>	<u>\$ 311,198</u>
Liabilities:				
Due to students/student groups	<u>\$ 346,300</u>	<u>\$ 1,087,129</u>	<u>\$ 1,122,231</u>	<u>\$ 311,198</u>
<u>Florin High School</u>				
Assets:				
Cash on hand and in banks	\$ 269,255	\$ 387,279	\$ 404,735	\$ 251,799
Inventory	496	-	496	-
	<u>\$ 269,751</u>	<u>\$ 387,279</u>	<u>\$ 405,231</u>	<u>\$ 251,799</u>
Liabilities:				
Due to students/student groups	<u>\$ 269,751</u>	<u>\$ 387,279</u>	<u>\$ 405,231</u>	<u>\$ 251,799</u>
<u>Franklin High School</u>				
Assets:				
Cash on hand and in banks	\$ 282,289	\$ 1,002,761	\$ 1,044,624	\$ 240,426
Inventory	-	-	-	-
	<u>\$ 282,289</u>	<u>\$ 1,002,761</u>	<u>\$ 1,044,624</u>	<u>\$ 240,426</u>
Liabilities:				
Due to students/student groups	<u>\$ 282,289</u>	<u>\$ 1,002,761</u>	<u>\$ 1,044,624</u>	<u>\$ 240,426</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

(Continued)

For the Year Ended June 30, 2014

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2014</u>
<u>Student Body Funds</u>				
(Continued)				
<u>Laguna Creek High School</u>				
Assets:				
Cash on hand and in banks	\$ 270,573	\$ 296,183	\$ 308,600	\$ 258,156
Inventory	<u>16,013</u>	<u>14,734</u>	<u>14,435</u>	<u>16,312</u>
	<u>\$ 286,586</u>	<u>\$ 310,917</u>	<u>\$ 323,035</u>	<u>\$ 274,468</u>
Liabilities:				
Due to students/student groups	<u>\$ 286,586</u>	<u>\$ 310,917</u>	<u>\$ 323,035</u>	<u>\$ 274,468</u>
<u>Monterey Trail High School</u>				
Assets:				
Cash on hand and in banks	\$ 232,613	\$ 553,873	\$ 497,495	\$ 288,991
Inventory	<u>-</u>	<u>54,919</u>	<u>54,888</u>	<u>31</u>
	<u>\$ 232,613</u>	<u>\$ 608,792</u>	<u>\$ 552,383</u>	<u>\$ 289,022</u>
Liabilities:				
Due to students/student groups	<u>\$ 232,613</u>	<u>\$ 608,792</u>	<u>\$ 552,383</u>	<u>\$ 289,022</u>
<u>Pleasant Grove High School</u>				
Assets:				
Cash on hand and in banks	\$ 279,094	\$ 901,550	\$ 952,963	\$ 227,681
Inventory	<u>-</u>	<u>72,583</u>	<u>72,583</u>	<u>-</u>
	<u>\$ 279,094</u>	<u>\$ 974,133</u>	<u>\$ 1,025,546</u>	<u>\$ 227,681</u>
Liabilities:				
Due to students/student groups	<u>\$ 279,094</u>	<u>\$ 974,133</u>	<u>\$ 1,025,546</u>	<u>\$ 227,681</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

(Continued)

For the Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Student Body Funds</u>				
(Continued)				
<u>Sheldon High School</u>				
Assets:				
Cash on hand and in banks	\$ 377,768	\$ 730,177	\$ 731,177	\$ 376,768
Inventory	<u>3,335</u>	<u>57,005</u>	<u>53,700</u>	<u>6,640</u>
	<u>\$ 381,103</u>	<u>\$ 787,182</u>	<u>\$ 784,877</u>	<u>\$ 383,408</u>
Liabilities:				
Due to students/student groups	<u>\$ 381,103</u>	<u>\$ 787,182</u>	<u>\$ 784,877</u>	<u>\$ 383,408</u>
<u>Valley High School</u>				
Assets:				
Cash on hand and in banks	\$ 52,946	\$ 278,504	\$ 323,846	\$ 7,604
Inventory	<u>1,460</u>	<u>53,865</u>	<u>51,156</u>	<u>4,169</u>
	<u>\$ 54,406</u>	<u>\$ 332,369</u>	<u>\$ 375,002</u>	<u>\$ 11,773</u>
Liabilities:				
Due to students/student groups	<u>\$ 54,406</u>	<u>\$ 332,369</u>	<u>\$ 375,002</u>	<u>\$ 11,773</u>
<u>Cosumnes Oaks High School</u>				
Assets:				
Cash on hand and in banks	\$ 236,062	\$ 883,241	\$ 787,036	\$ 332,267
Inventory	<u>-</u>	<u>95,093</u>	<u>72,943</u>	<u>22,150</u>
	<u>\$ 236,062</u>	<u>\$ 978,334</u>	<u>\$ 859,979</u>	<u>\$ 354,417</u>
Liabilities:				
Due to students/student groups	<u>\$ 236,062</u>	<u>\$ 978,334</u>	<u>\$ 859,979</u>	<u>\$ 354,417</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2014

	Balance July 1, 2013	<u>Additions</u>	<u>Deductions</u>	Balance June 30, 2014
<u>Student Body Funds</u>				
(Continued)				
<u>Edward Harris, Jr. Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 70,527	\$ 189,666	\$ 177,090	\$ 83,103
Inventory	-	-	-	-
	<u>\$ 70,527</u>	<u>\$ 189,666</u>	<u>\$ 177,090</u>	<u>\$ 83,103</u>
Liabilities:				
Due to students/student groups	<u>\$ 70,527</u>	<u>\$ 189,666</u>	<u>\$ 177,090</u>	<u>\$ 83,103</u>
<u>Toby Johnson Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 306,559	\$ 422,637	\$ 302,328	\$ 426,868
Inventory	-	-	-	-
	<u>\$ 306,559</u>	<u>\$ 422,637</u>	<u>\$ 302,328</u>	<u>\$ 426,868</u>
Liabilities:				
Due to students/student groups	<u>\$ 306,559</u>	<u>\$ 422,637</u>	<u>\$ 302,328</u>	<u>\$ 426,868</u>
<u>Joseph Kerr Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 140,083	\$ 173,794	\$ 194,127	\$ 119,750
Inventory	77	-	-	77
	<u>\$ 140,160</u>	<u>\$ 173,794</u>	<u>\$ 194,127</u>	<u>\$ 119,827</u>
Liabilities:				
Due to students/student groups	<u>\$ 140,160</u>	<u>\$ 173,794</u>	<u>\$ 194,127</u>	<u>\$ 119,827</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS

(Continued)

For the Year Ended June 30, 2014

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Student Body Funds</u>				
(Continued)				
<u>Harriet Eddy Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 6,505	\$ 195,691	\$ 161,979	\$ 40,217
Inventory	-	<u>46,949</u>	<u>46,949</u>	-
	<u>\$ 6,505</u>	<u>\$ 242,640</u>	<u>\$ 208,928</u>	<u>\$ 40,217</u>
Liabilities:				
Due to students/student groups	<u>\$ 6,505</u>	<u>\$ 242,640</u>	<u>\$ 208,928</u>	<u>\$ 40,217</u>
<u>James Rutter Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 51,001	\$ 159,411	\$ 137,966	\$ 72,446
Inventory	<u>1,056</u>	<u>28,418</u>	<u>28,673</u>	<u>801</u>
	<u>\$ 52,057</u>	<u>\$ 187,829</u>	<u>\$ 166,639</u>	<u>\$ 73,247</u>
Liabilities:				
Due to students/student groups	<u>\$ 52,057</u>	<u>\$ 187,829</u>	<u>\$ 166,639</u>	<u>\$ 73,247</u>
<u>Katherine L. Albani Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 155,053	\$ 348,244	\$ 404,068	\$ 99,229
Inventory	-	-	-	-
	<u>\$ 155,053</u>	<u>\$ 348,244</u>	<u>\$ 404,068</u>	<u>\$ 99,229</u>
Liabilities:				
Due to students/student groups	<u>\$ 155,053</u>	<u>\$ 348,244</u>	<u>\$ 404,068</u>	<u>\$ 99,229</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2014

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2014</u>
<u>Student Body Funds</u>				
(Continued)				
 <u>Samuel Jackman Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 32,552	\$ 62,424	\$ 61,523	\$ 33,453
Inventory	<u>716</u>	<u>3,757</u>	<u>4,387</u>	<u>86</u>
	<u>\$ 33,268</u>	<u>\$ 66,181</u>	<u>\$ 65,910</u>	<u>\$ 33,539</u>
Liabilities:				
Due to students/student groups	<u>\$ 33,268</u>	<u>\$ 66,181</u>	<u>\$ 65,910</u>	<u>\$ 33,539</u>
 <u>Pinkerton Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 54,721	\$ 251,784	\$ 253,541	\$ 52,964
Inventory	<u>-</u>	<u>25,449</u>	<u>24,910</u>	<u>539</u>
	<u>\$ 54,721</u>	<u>\$ 277,233</u>	<u>\$ 278,451</u>	<u>\$ 53,503</u>
Liabilities:				
Due to students/student groups	<u>\$ 54,721</u>	<u>\$ 277,233</u>	<u>\$ 278,451</u>	<u>\$ 53,503</u>
 <u>T. R. Smedberg Middle School</u>				
Assets:				
Cash on hand and in banks	\$ 124,882	\$ 175,688	\$ 171,886	\$ 128,684
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 124,882</u>	<u>\$ 175,688</u>	<u>\$ 171,886</u>	<u>\$ 128,684</u>
Liabilities:				
Due to students/student groups	<u>\$ 124,882</u>	<u>\$ 175,688</u>	<u>\$ 171,886</u>	<u>\$ 128,684</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2014

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2014</u>
<u>Student Body Funds</u>				
(Continued)				
<u>Elementary and Other Schools</u>				
Assets:				
Cash on hand and in banks	\$ 1,300,651	\$ 4,183,065	\$ 4,169,604	\$ 1,314,112
Inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,300,651</u>	<u>\$ 4,183,065</u>	<u>\$ 4,169,604</u>	<u>\$ 1,314,112</u>
Liabilities:				
Due to students/student groups	<u>\$ 1,300,651</u>	<u>\$ 4,183,065</u>	<u>\$ 4,169,604</u>	<u>\$ 1,314,112</u>
<u>Total Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ 4,583,297	\$ 12,227,342	\$ 12,144,923	\$ 4,665,716
Inventory	<u>29,290</u>	<u>508,531</u>	<u>487,016</u>	<u>50,805</u>
	<u>\$ 4,612,587</u>	<u>\$ 12,735,873</u>	<u>\$ 12,631,939</u>	<u>\$ 4,716,521</u>
Liabilities:				
Due to students/student groups	<u>\$ 4,612,587</u>	<u>\$ 12,735,873</u>	<u>\$ 12,631,939</u>	<u>\$ 4,716,521</u>

ELK GROVE UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2014

Elk Grove Unified School District was established in 1959 through the unification of smaller school districts. The District is a political subdivision of the State of California. The District covers 320 square miles within the City of Elk Grove, the City of Sacramento, the City of Rancho Cordova and unincorporated areas of Sacramento County. The District operates 39 elementary schools (grades K-6), nine middle schools (grades 7-8), nine comprehensive high schools (grades 9-12), three continuation high schools, one special education school, one adult school, one independent studies program, one charter school and one virtual school.

The Board of Education of Elk Grove Unified School District governs all activities related to public education within the jurisdiction of the District. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding source entities. Elk Grove Unified School District is governed by an elected seven member Board of Education. The board members represent seven geographic areas and are elected at large for four year terms and elections are held every two years. The Board has the decision making authority and is accountable for all fiscal matters relating to the District.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Priscilla Cox	President	November 2014
Steve Ly	Clerk	November 2016
Jeanette J. Amavisca	Member	November 2014
Carmine S. Forcina	Member	November 2016
Chet Madison, Sr.	Member	November 2016
Anthony "Tony" Perez	Member	November 2016
Bobbie Singh-Allen	Member	November 2014

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for managing the District's day-to-day operations and supervising the work of other key District administrators. Key members of the District's staff are as follows:

ADMINISTRATION

Steven M. Ladd, Ed. D.
Superintendent

Mark Cerutti
Associate Superintendent, Education Services

Donna Cherry
Associate Superintendent, Elementary (Pre K-6) Education

Glen De Graw
Associate Superintendent, Human Resources

Richard Fagan
Associate Superintendent, Finance and School Support

Christina Penna
Associate Superintendent, Secondary (7-12) Education

Robert Pierce
Associate Superintendent, Facilities and Planning

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2014

	<u>Second Period Report</u>	<u>Revised Second Period Report</u>	<u>Annual Report</u>
Elementary:			
Transitional Kindergarten through Third	17,544	17,543	17,592
Fourth through Sixth	13,946	13,945	13,948
Seventh and Eighth	<u>9,438</u>	<u>9,435</u>	<u>9,411</u>
Total Elementary	<u>40,928</u>	<u>40,923</u>	<u>40,951</u>
Secondary:			
Ninth through Twelfth	<u>18,450</u>	<u>18,450</u>	<u>18,339</u>
Total District	<u><u>59,378</u></u>	<u><u>59,373</u></u>	<u><u>59,290</u></u>
Charter School - Non Classroom-Based: Secondary Education	<u><u>251</u></u>	<u><u>251</u></u>	<u><u>258</u></u>

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2014

	Statutory 1986-87 Minutes Require- ment	Reduced 1986-87 Minutes Require- ment	Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
<u>DISTRICT</u>						
Kindergarten	36,000	35,000	36,000	180	171	In Compliance
Grade 1	50,400	49,000	53,750	180	171	In Compliance
Grade 2	50,400	49,000	53,750	180	171	In Compliance
Grade 3	50,400	49,000	53,750	180	171	In Compliance
Grade 4	54,000	52,500	54,045	180	171	In Compliance
Grade 5	54,000	52,500	54,045	180	171	In Compliance
Grade 6	54,000	52,500	54,045	180	171	In Compliance
Grade 7	54,000	52,500	61,090	180	171	In Compliance
Grade 8	54,000	52,500	61,090	180	171	In Compliance
Grade 9	64,800	63,000	65,179	180	N/A	In Compliance
Grade 10	64,800	63,000	65,179	180	N/A	In Compliance
Grade 11	64,800	63,000	65,179	180	N/A	In Compliance
Grade 12	64,800	63,000	65,325	180	N/A	In Compliance
<u>CHARTER SCHOOL (NON-CLASSROOM BASED)</u>						
Grade 7	54,000	52,457	N/A	180	N/A	N/A
Grade 8	54,000	52,457	N/A	180	N/A	N/A
Grade 9	64,800	62,949	N/A	180	N/A	N/A
Grade 10	64,800	62,949	N/A	180	N/A	N/A

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
Special Education Cluster:			
84.027A	Special Education: IDEA Mental Health Services, Part B	14468	\$ 684,191
84.027	Special Education: Basic Grant Entitlement PL 101-476	13379	9,910,445
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B, Section 611	13682	406,717
84.027	Special Education: IDEA Local Assistance, Part B, Section 611, Early Intervening Services	10119	1,300,908
84.173A	Special Education: IDEA Preschool Staff Development, Part B, Section 619	13431	2,332
84.173	Special Education: IDEA Preschool Grant, Part B	13430	<u>195,448</u>
Subtotal Special Education Cluster			<u>12,500,041</u>
NCLB: Title I Program:			
84.010	NCLB: Title I: Basic Grants Low-Income and Neglected	14329	11,397,546
84.010	NCLB: Title I, Part D, Subpart 2, Local Delinquent Programs	14357	<u>265,705</u>
Subtotal NCLB: Title I Program			<u>11,663,251</u>
Adult Education Program:			
84.002A	Adult Education: Adult Basic Education & ESL	14508	186,103
84.002	Adult Education: English Literacy & Civics Education	14109	187,746
84.002	Adult Education: Institutionalized Adults	13971	76,214
84.002	Adult Education: Adult Secondary Education/GED	13978	<u>108,009</u>
Subtotal Adult Education Cluster			<u>558,072</u>
Carl D. Perkins Career and Technical Education Program:			
84.048	Carl D. Perkins Career and Technical Education, Secondary, Section 131	14894	397,186
84.048	Carl D. Perkins Career and Technical Education, Secondary, Section 132	13923	<u>111,408</u>
Subtotal Carl D. Perkins Career and Technical Education Program			<u>508,594</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2014

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
	NCLB: Title II Programs:		
84.366	NCLB: Title II: Part B, CaMSP	14512	\$ 859,929
84.366B	California Math & Science Cohort 9	14512	<u>587,122</u>
	Subtotal NCLB: Title II Programs		<u>1,447,051</u>
84.367	NCLB: Title II: Teacher Quality	14341	1,505,545
84.181	Special Education: IDEA Early Intervention Grants, Part C	23761	53,605
84.215E	Elementary School Counseling	-	284,758
84.287	NCLB: Title IV, Part B, 21st Century Community Learning Centers Program	14681	1,604,225
84.158	Department of Rehabilitation: Workability II, Transitions Partnership	10006	272,469
84.060	Indian Education	10011	35,371
84.196	NCLB: Title X McKinney-Vento Homeless Children Assistance Grants	14332	71,542
84.334A	Other Federal: California State Gear Up Program	10088	123,115
84.418P	Promise	-	21,038
84.365	Title III: Limited English Proficient Student Program	14346	<u>878,641</u>
	Total U.S. Department of Education		<u>31,527,318</u>
<u>U.S. Department of Labor - Passed through California Department of Education</u>			
	WIA Cluster:		
17.258	SETA: Workforce Skills Preparation Services	-	465,045
17.259	SETA: One Stop, Universal Services	-	70,857
17.259	SETA: One Stop, Out of School Services	-	<u>184,883</u>
	Subtotal WIA Cluster		<u>720,785</u>
	Total U.S. Department of Labor		<u>720,785</u>
<u>National Endowment for the Humanities - Passed through California Department of Education</u>			
45.024	Promotion of the Arts	-	<u>29,901</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
	Head Start Program:		
93.600	Head Start - Basic	10016	2,547,912
93.600	Head Start - PA 20	10016	<u>8,667</u>
	Subtotal Head Start Program		<u>2,556,579</u>

(Continued)

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

(Continued)

For the Year Ended June 30, 2014

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education (Continued)</u>			
93.596	Child Development: Federal Child Care Center Based	13609	\$ 433,383
93.778	Dept of Health Services (DHCS): Medi-Cal Billing Option	10013	965,151
93.674	Chafee Foster Care Independence Program	-	<u>93,699</u>
	Total U.S. Department of Health and Human Services		<u>4,048,812</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.555	Child Nutrition: School Programs	13390	17,278,719
10.558	Child Nutrition: Child Care Food Program Claims		1,498,851
10.582	Child Nutrition: Fresh Fruit & Vegetable Program	14968	24,021
10.574	Child Nutrition: Team Nutritional Grants	01188	1,030
10.551	Cancer Prevention & Nutrition	-	<u>108,058</u>
	Total U.S. Department of Agriculture		<u>18,910,679</u>
<u>U.S. Department of Justice - Passed through California Department of Education</u>			
16.821	Juvenile Justice Reform and Reinvestments Demonstration Program	-	<u>45,364</u>
<u>U.S. Department of Transportation - Passed through California Department of Education</u>			
20.205	Safe Routes to Schools	-	<u>105,749</u>
<u>U.S. Department of Homeland Security - Passed through California Department of Education</u>			
97.010	Citizenship and Integrity Grant	-	<u>57,525</u>
97.UNKNOWN	Healing Our Own People	-	<u>700</u>
97.UNKNOWN	NJROTC	-	<u>6,968</u>
	Total Federal Programs		<u>\$ 55,453,801</u>

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

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

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2014

(UNAUDITED)

	(Budgeted) 2015	2014	2013	2012
<u>General Fund</u>				
Revenues and other financing sources	<u>\$ 515,652,944</u>	<u>\$ 498,040,618</u>	<u>\$ 473,312,077</u>	<u>\$ 473,067,670</u>
Expenditures	527,656,415	506,847,195	480,633,677	452,834,081
Other uses and transfers out	<u>1,256,756</u>	<u>1,363,265</u>	<u>1,916,447</u>	<u>1,901,423</u>
Total outgo	<u>528,913,171</u>	<u>508,210,460</u>	<u>482,550,124</u>	<u>454,735,504</u>
Change in fund balance	<u>\$ (13,260,227)</u>	<u>\$ (10,169,842)</u>	<u>\$ (9,238,047)</u>	<u>\$ 18,332,166</u>
Ending fund balance	<u>\$ 51,103,966</u>	<u>\$ 64,364,193</u>	<u>\$ 74,534,035</u>	<u>\$ 83,772,082</u>
Available reserves	<u>\$ 10,700,000</u>	<u>\$ 10,700,000</u>	<u>\$ 10,000,000</u>	<u>\$ 9,500,000</u>
Designated for economic uncertainties	<u>\$ 10,700,000</u>	<u>\$ 10,700,000</u>	<u>\$ 10,000,000</u>	<u>\$ 9,500,000</u>
Undesignated fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as percentages of total outgo	<u>2.0%</u>	<u>2.1%</u>	<u>2.1%</u>	<u>2.1%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 195,803,183</u>	<u>\$ 202,529,635</u>	<u>\$ 207,290,096</u>	<u>\$ 202,416,795</u>
Average daily attendance at P-2 (excluding Charter School)	<u>59,378</u>	<u>59,373</u>	<u>58,796</u>	<u>58,922</u>

The General Fund fund balance has decreased by \$1,075,723 over the past three years. The fiscal year 2013-2014 budget, as originally adopted, projects an decrease of \$13,260,227. For a district this size (budgeted ADA in excess of 30,000), the state recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District has met this requirement.

The District has incurred operating deficits in two of the past three years, and anticipates an operating deficit during the 2013-14 fiscal year.

Total long-term liabilities have increased by \$112,840 over the past three years, as shown in Note 6 to the basic financial statements.

Average daily attendance has increased by 451 over the past three years. An increase of 5 ADA is projected for the 2014-15 fiscal year.

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2014

<u>Charter Schools Chartered by District</u>	Included in District Financial Statements, or <u>Separate Report</u>
Elk Grove Charter School	Included as Charter Schools Fund
California Montessori Project - Elk Grove Campus	Separate Report

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF FIRST 5 REVENUES AND EXPENDITURES
For the Year Ended June 30, 2014

	<u>First 5/ School Readiness</u>	<u>All Other Programs</u>	<u>Total Child Development Fund</u>
Revenues:			
Federal revenue sources	\$ -	\$ 2,989,963	\$ 2,989,963
State revenue sources	-	1,313,814	1,313,814
Local revenues sources	<u>494,807</u>	<u>42,335</u>	<u>537,142</u>
 Total revenues	 <u>494,807</u>	 <u>4,346,112</u>	 <u>4,840,919</u>
Expenditures:			
Certificated salaries	207,774	1,559,475	1,767,249
Classified salaries	90,945	912,721	1,003,666
Employee benefits	101,150	914,873	1,016,023
Books and supplies	58,226	119,725	177,951
Contract services and operating expenditures	<u>36,712</u>	<u>819,527</u>	<u>856,239</u>
 Total expenditures	 <u>494,807</u>	 <u>4,326,321</u>	 <u>4,821,128</u>
 Excess of revenues over expenditures	 <u>-</u>	 <u>19,791</u>	 <u>19,791</u>
Other financing sources (uses):			
Operating transfers in	-	209,165	209,165
Operating transfers out	<u>-</u>	<u>(196,772)</u>	<u>(196,772)</u>
 Total other financing sources (uses)	 <u>-</u>	 <u>12,393</u>	 <u>12,393</u>
 Net change in fund balances	 -	 32,184	 32,184
 Fund balances, July 1, 2013	 <u>-</u>	 <u>19,572</u>	 <u>19,572</u>
 Fund balances, June 30, 2014	 <u>\$ -</u>	 <u>\$ 51,756</u>	 <u>\$ 51,756</u>

See accompanying notes to supplementary information.

ELK GROVE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

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

C - Schedule of Expenditure of Federal Awards

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

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2014.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 54,073,889
Add: Special Education: Basic Grant Entitlement PL 101-476	84.027	1,300,907
NCLB: Title II, Part A, Teacher Quality spent from prior year awards	84.367	<u>79,005</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 55,453,801</u>

ELK GROVE UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
(Continued)

1. PURPOSE OF SCHEDULES (Continued)

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

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis - Unaudited

This schedule provides trend information on the District's financial condition over the past three years and its anticipated condition for the 2014-2015 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

F - Schedule of Charter Schools

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

G - Schedule of First 5 Revenues and Expenditures

This schedule provides information about the First 5 Sacramento County Program.

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the year ended June 30, 2014, the District did not adopt this program.

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

Board of Education
 Elk Grove Unified School District
 Elk Grove, California

Report on Compliance with State Laws and Regulations

We have audited Elk Grove Unified School District's compliance with the types of compliance requirements described in the State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2014.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time	10	Yes
Instructional Materials	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	No, see below
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	No, see below
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance, for charter schools	8	Yes
Mode of Instruction, for charter schools	1	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes - Classroom-Based, for charter schools	4	No, see below
Charter School Facility Grant Program	1	No, see below

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

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District did not offer a Before School Education and Safety Program; therefore, we did not perform any procedures relating to the Before School Education and Safety Program.

The District does not offer classroom-based instruction for charter schools; therefore, we did not perform any procedures related to Mode of Instruction and Annual Instructional Minutes - Classroom-Based for charter schools.

The District did not receive Charter School Facility Grant Program funding; therefore, we did not perform any procedures related to the program.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with state laws and regulations as listed above of Elk Grove Unified School District. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed above occurred. An audit includes examining, on a test basis, evidence about Elk Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Elk Grove Unified School District's compliance.

Basis for Qualified Opinion on Compliance with State Laws and Regulations

As described in Finding 2014-003 in the accompanying Schedule of Audit Findings and Questioned Costs, Elk Grove Unified School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Counts. Compliance with such requirements is necessary, in our opinion, for Elk Grove Unified School District to comply with state laws and regulations applicable to this program.

Qualified Opinion on Compliance with State Laws and Regulations

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Elk Grove Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2014. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Elk Grove Unified School District had not complied with the state laws and regulations.

Other Matter

Elk Grove Unified School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. Elk Grove Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
December 2, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
Elk Grove Unified School District
Elk Grove, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elk Grove Unified School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Elk Grove Unified School District's basic financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control Over Financial Reporting

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

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

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

We identified deficiencies involving internal control that we communicated to management as identified in the accompanying Schedule of Audit Findings and Questioned Costs as findings 2014-001 and 2014-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elk Grove Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District Response to Findings

Elk Grove Unified School District's responses to the findings identified in our audit are included in the accompanying Schedule of Audit Findings and Questioned Costs. Elk Grove Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 2, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE FIRST 5
SACRAMENTO COUNTY PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH A PROGRAM-SPECIFIC AUDIT

Board of Education
Elk Grove Unified School District
Elk Grove, California

Report on Compliance for First 5 Sacramento County Program

We have audited Elk Grove Unified School District's compliance with the types of compliance requirements described in the Program Guidelines for the First 5 Sacramento County Program that have a direct and material effect on its First 5 Sacramento County Program for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its First 5 Sacramento County Program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Elk Grove Unified School District's First 5 Sacramento County Program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the First 5 Sacramento County Program occurred. An audit includes examining, on a test basis, evidence about Elk Grove Unified 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. However, our audit does not provide a legal determination of Elk Grove Unified School District's compliance with those requirements.

Opinion on First 5 Sacramento County Program

In our opinion, Elk Grove Unified School District complied, in all material respects, with the compliance requirements referred to above that have a direct and material effect on its First 5 Sacramento County Program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Elk Grove Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Elk Grove Unified School District's internal control over compliance with requirements that could have a direct and material effect on its First 5 Sacramento County Program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the First 5 Sacramento County Program and to test and report on internal control over compliance in accordance with the First 5 Sacramento County Program Guidelines, 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 Elk Grove Unified 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 the First 5 Sacramento County 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 the First 5 Sacramento County Program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the First 5 Sacramento County Program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of First 5 Sacramento County Program Guidelines. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 2, 2014

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

Board of Education
Elk Grove Unified School District
Elk Grove, California

Report on Compliance for Each Major Federal Program

We have audited Elk Grove Unified 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 Elk Grove Unified School District's major federal programs for the year ended June 30, 2014. Elk Grove Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Elk Grove Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elk Grove Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Elk Grove Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Elk Grove Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
December 2, 2014

FINDINGS AND RECOMMENDATIONS

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

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

Noncompliance material to financial statements
noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.600	Head Start Program
93.778	Department of Health Services (DHCS): Medi-Cal Billing Option
10.555	Child Nutrition: School Programs

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 1,663,614

Auditee qualified as low-risk auditee? X Yes _____ No

STATE AWARDS

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

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001 DEFICIENCY - STUDENT BODY ACCOUNTING (30000)

Criteria

Internal Controls - Safeguarding of Assets

Condition

At various school sites selected for testing the following issues were noted:

- No evidence of approval of fundraising activities.
- Receipts are not issued by the ASB Secretary, to the teachers turning in the funds..
- No records of receipt books issued to teachers is maintained by the ASB Secretary.

Effect

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

Cause

Adequate internal control procedures have not been consistently followed.

Fiscal Impact

Not determinable.

Recommendations

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

- Formal approval for fundraising activities by the Principal or other designated site personnel be performed.
- Receipts should be issued and signed when funds are deposited with the ASB Secretary.
- Records of receipt books issued should be maintained.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2014

2014-001 DEFICIENCY - STUDENT BODY ACCOUNTING (30000) (Continued)

Corrective Action Plan

The District continues to administer District-wide guidelines in conjunction with the Fiscal Crisis Management Assistance Team (FCMAT) Associated Student Body Accounting Manual, Fraud Prevention Guide and Desk Reference. In addition, at the request of the District an in-service workshop was provided by Crowe Horwath on October 22, 2013, to all Secondary administrators and support staff for the 2013-14 fiscal year. For 2014-15 fiscal year, the District has made arrangements to have a presentation from Fiscal Crisis & Management Assistance Team (FCMAT) on December 9, 2014. This presentation is intended for all secondary sites and will provide information on best practices in the area of ASB accounting.

The District's Fiscal Services Compliance Specialist position continues visiting all schools annually to provide support on proper handling of ASB monies, ASB accounting and a greater level of support to site personnel. Additional site visits and meetings are scheduled as necessary.

District Fiscal Services staff and secondary school site controllers also meet three times a year. A specific "Fiscal Compliance" e-mail account has been created to provide a more efficient communication model for site staff to submit questions and Fiscal Staff to respond. In addition, a database of frequently asked questions and helpful tips has been created as an on-going reference to communicate best practices to site staff.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2014

2014-002 DEFICIENCY - VACATION ACCRUAL (30000)

Criteria

Vacation accrual is governed by collective bargaining contracts as well as board policies 4162, 4262 and 4362. All contracts and board policies prohibit accumulation of vacation days in excess of the stated maximums.

Condition

As of June 30, 2014, there are approximately 623 employees who exceed the maximum days permitted by policy, by a total of approximately 16,476 excess days, representing an excess vacation accrual of \$2,808,830.

Effect

Increased liability to the District, to be paid in future years based on the overaccrual.

Cause

The District is not enforcing policy and contract language regarding vacation accrual.

Fiscal Impact

As of June 30, 2014, the excess vacation accrual is \$2,808,830.

Recommendations

The District should enforce the requirements set in the collective bargaining contracts and District policy.

Corrective Action Plan

The District is continuing to work on a way to enforce the accrual policy and limit hours that can be accrued by stopping the accrual when it reaches a maximum level. The issue will be discussed during 2014/2015 negotiations with employee groups.

ELK GROVE UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

ELK GROVE UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 (Continued)
 Year Ended June 30, 2014

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

2014-003 DEFICIENCY – UNDUPLICATED LOCAL CONTROL FUNDING FORMULA PUPIL COUNTS (40000)

Criteria

Any student who meets the federal income eligibility criteria or is deemed to be categorically eligible for FRPM under the National School Lunch Program (NSLP) will be counted as FRPM-eligible. Except for directly certified and foster students identified through a statewide match, LEAs must submit the appropriate student program (SPRG) records to CALPADS in order for the students to be counted as FRPM-eligible. Education Code. Reference: Sections 14502.1, 14503, 2574(b)(3)(C), 44238.02(b)(3)(B), and 41020, Education Code.

Condition

At Joseph Sims Elementary School, an incorrect student ID was used as support for one student's free and reduced status. The student did not qualify and therefore should not have been included in the CalPADS report.

Effect

The effect of this finding is an extrapolated 9 students overreported for CalPADS.

Unduplicated pupil count based on:	Free & Reduced Meal Program (FRPM)	English Learners (ELAS)	Both FRPM & ELAS	Total
As certified on CalPADS	185	67	46	298
Audit adjustments	<u>(9)</u>	<u>-</u>	<u>-</u>	<u>(9)</u>
Adjusted counts	<u><u>176</u></u>	<u><u>67</u></u>	<u><u>46</u></u>	<u><u>289</u></u>

Cause

The errors were the result of clerical errors in accounting for attendance.

Fiscal Impact

The fiscal impact of this finding is a loss of funding of \$7,757.

Recommendation

The District should ensure that student information used is correctly entered in to the system for all students receiving Free and Reduced lunches

Corrective Action Plan

The existing verification process will be reviewed by management with clerical staff to ensure all necessary steps are included to avoid similar errors in the future. This process will also be reviewed annually.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

ELK GROVE UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2013-01</p> <p>At various school sites selected for testing the following issues were noted:</p> <ul style="list-style-type: none"> • There was no indication that inventory counts were reviewed to determine propriety as to character and quantities. • A profit and loss statement for the student store is not prepared. • A monthly report of financial transactions of the various club accounts is not prepared and submitted to the school principal. • Receipts are not issued when funds are turned into the Secretary. • Deposits are not supported by detailed schedules defining the number of items receipted and the unit price per item. • There is no evidence of dual signatures on check disbursements. • No evidence of approval of fund-raising activities. • No evidence of student store inventory counts being performed. • No evidence of student store profit and loss statements being reviewed. 	<p>Partially implemented.</p>	<p>See current year finding 2014-001.</p>
<p>School sites should implement the proper control procedures in order to protect ASB funds from misappropriation:</p> <ul style="list-style-type: none"> • Student store inventory, profit-loss and monthly activity summaries should be performed regularly and reviewed/ approved by the Principal or other designated site personnel. • Monthly report of financial transaction of the various club accounts should be prepared and submitted to the school Principal for review and approval. • Receipts should be issued and signed when funds are deposited into the front office. 		

ELK GROVE UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
Year Ended June 30, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2013-01 (Continued)		
<ul style="list-style-type: none"> • Deposits should be supported by detailed schedules defining the number of items receipted and unit price per item. • Check disbursements should require two signatures and evidence of such should be retained. • Formal approval for fundraising activities by the Principal or other designated site personnel be performed. 	Not implemented.	See current year finding 2014-002.
2013-02		
<p>As of June 30, 2013, there are approximately 672 employees who exceed the maximum days permitted by policy, by a total of approximately 17,268 excess days, representing an excess vacation accrual of \$2,971,486.</p> <p>The District should enforce the requirements set in the collective bargaining contracts and District policy.</p>	Implemented.	
2013-03		
<p>In performing compliance procedures there were seven instances noted in which the "Consent Retain Pupil in Kindergarten" form lacked appropriate pre-approval from the student's parent/guardian.</p> <p>The District should revise and resubmit the Second Period and Annual Reports of Attendance to reflect the disallowed ADA.</p>		