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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 Elk Grove Unified School District (the "District") Measure M General Obligation Bonds (the "Bonds") activity included in the Building Fund of the District, as of and for the year ended June 30, 2018, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risk 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 the 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 principles 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 opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elk Grove Unified School District (the “District's”) Measure M General Obligation Bonds activity as of June 30, 2018, and the changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present the financial activity and balances of the Measure M General Obligation Bonds activity only, and do not purport to, and do not, present fairly the financial position of Elk Grove Unified School District, as of June 30, 2018 or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2018 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for Measure M General Obligation Bonds activity. 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 for Measure M General Obligation Bonds activity. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District’s internal control financial reporting and compliance for the Measure M General Obligation Bonds activity.

Crowe LLP
Sacramento, California
November 27, 2018
## ASSETS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in County Treasury</td>
<td>$40,548,648</td>
</tr>
<tr>
<td>Receivables</td>
<td>$461,809</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$41,010,457</strong></td>
</tr>
</tbody>
</table>

## LIABILITIES AND FUND BALANCE

<table>
<thead>
<tr>
<th>Liability</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$7,676,684</td>
</tr>
<tr>
<td>Due to other funds</td>
<td>$138,964</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$7,815,648</strong></td>
</tr>
<tr>
<td>Fund balance – restricted</td>
<td>$33,194,809</td>
</tr>
<tr>
<td><strong>Total liabilities and fund balance</strong></td>
<td><strong>$41,010,457</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Revenues:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other local revenue</td>
<td>$965,378</td>
</tr>
</tbody>
</table>

Expenditures:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classified salaries</td>
<td>2,337</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>379</td>
</tr>
<tr>
<td>Contract services and operating expenditures</td>
<td>2,358</td>
</tr>
<tr>
<td>Capital outlay</td>
<td>47,825,221</td>
</tr>
<tr>
<td><strong>Total expenditures</strong></td>
<td><strong>47,830,295</strong></td>
</tr>
<tr>
<td><strong>Change in fund balance</strong></td>
<td><strong>(46,864,917)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund balance, July 1, 2017</td>
<td>80,059,726</td>
</tr>
<tr>
<td>Fund balance, June 30, 2018</td>
<td>$33,194,809</td>
</tr>
</tbody>
</table>
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Elk Grove Unified School District (the "District") conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practices within California school districts. The District accounts for its financial transactions in accordance with policies and procedures of the Department of Education’s California School Accounting Manual. The activities of the Measure M Bonds are recorded along with other activities in the District's Building Fund. 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 (GASB). The following is a summary of the more significant accounting policies:

Financial Reporting Entity: The financial statements include the activity and balances of the Measure M General Obligation Bonds, only. The activities of the Measure M General Obligation Bonds are recorded along with other activities in the District's Building Fund. These financial statements are not intended to present the financial position and results of operations of Elk Grove Unified School District as a whole.

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

The basic 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 within 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 of interest receivable. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2018.

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.

Accounting 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.
NOTE 2 – CASH

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

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, 2018, the District had no significant interest rate risk related to cash and investments held.

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.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2018 the District had no concentration of credit risk.

NOTE 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 Payable: Interfund payable balance of $138,964 at June 30, 2018 was due to other funds of the District.

NOTE 4 – FUND BALANCE CLASSIFICATION

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 are nonspendable, restricted, committed, assigned and unassigned. The fund balance of the Measure M General Obligation Bonds is restricted, as described below.

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.
NOTE 5 – PURPOSE OF BOND ISSUANCE

Bond Authorization: By approval of this proposition by at least 55% of the registered voters voting on the proposition, the Elk Grove Unified School District shall be authorized to issue and sell bonds of up to $476,000,000 in aggregate principal amount.

Purpose of Bonds: The proceeds of the Bonds may be used:

“To repair and modernize classrooms, fix deteriorating roofs, plumbing, and HVAC systems, improve student safety and campus security, construct and upgrade additional classrooms, labs, career technical education facilities and instructional technology to support student achievement in math, science, arts and skilled trades and keep up with growth and relieve overcrowding.”

As required by the California Constitution, the proceeds from the sale of bonds will be used only for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

NOTE 6 – GENERAL OBLIGATION BOND ISSUANCES

The bonds are general obligations of the District, and Sacramento County is obligated to levy ad valorem taxes for the payment of and interest on, the principal of the bonds. The Bond Interest and Redemption Fund is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the payment of interest and redemption of principal of the bonds issued by the District.

Measure M: On May 12, 2017, the District issued General Obligation Bonds, Election of 2016, Series 2017, in the amount of $82,100,000. Repayment of the bonds is made from the ad valorem taxes to be levied annually upon all property subject to taxation by the District. The Bonds bear interest at rates ranging from 3.0% to 5.0% and are scheduled to mature through August 1, 2046.
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 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 Elk Grove Unified School District (the "District") Measure M General Obligation Bonds (the "Bonds") activity included in the Building Fund of the District, as of and for the year ended June 30, 2018, and related notes to the financial statements and have issued our report thereon dated November 27, 2018.

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 Measure M General Obligation Bond activity financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(Continued)
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Elk Grove Unified School District Measure M General Obligation Bond activity included in the Building Fund of the District's financial statements is 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. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

This purpose of this report is intended solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, 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 Governmental Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP
Sacramento, California
November 27, 2018
No matters noted.